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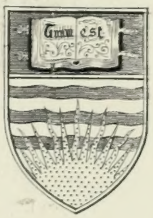

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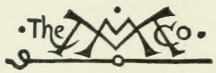
THE MODERN TRUST COMPANY



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THE

MODERN TRUST COMPANY

ITS FUNCTIONS AND ORGANIZATION

BY

FRANKLIN BUTLER KIRKBRIDE

FORMERLY TREASURER THE PENNSYLVANIA COMPANY FOR INSURANCES ON LIVES AND GRANTING ANNUITIES (TRUST AND SAFE DEPOSIT COMPANY)

AND

J. E. STERRETT, C.P.A.

OF THE FIRM OF PRICE, WATERHOUSE & COMPANY

FOURTH EDITION — REVISED

New York

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1913

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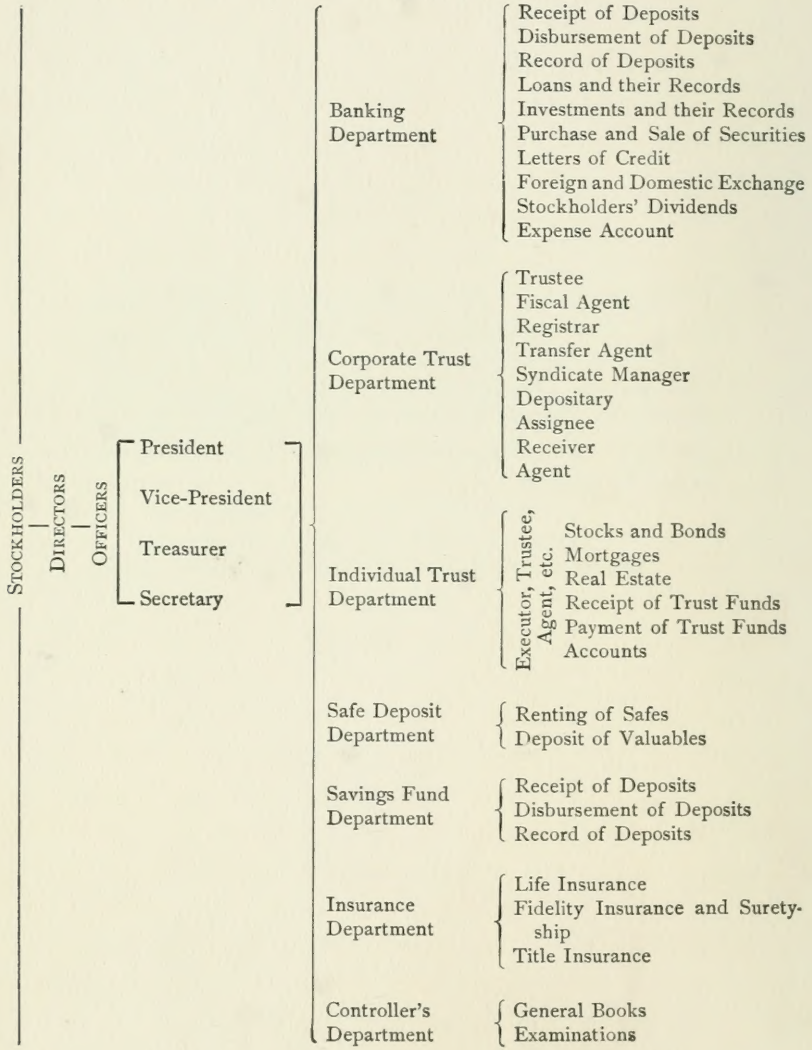
"Conservatism is really the foundation of all good banking, and it is more especially so in trust company operations than in anything else. The purely trust functions of the old-fashioned trust company are undoubtedly the highest development of the principle of credit and of confidence. They are the highest application of that principle to the relation of man to man in business."

HON. WILLIAM B. RIDGELY,

Comptroller of the Currency, before the Trust Company Section of the American Bankers' Association, September 13, 1904.

ORGANIZATION OF THE MODERN TRUST COMPANY



PREFACE

To a correspondent asking, "What book or books will best give me a working knowledge of trust company and banking methods; particularly regarding the work of the various departments of the trust companies?" the *New York Evening Post* recently replied that so far as it was aware no such book had been published.

A search in library catalogues confirms the almost equally discouraging statement of the Chief Bibliographer of the Library of Congress that "there is not much literature on trust companies appearing in separate book form." On the other hand, much has been written about the functions, organization, and methods of the banks.

The reason is easily given. The development of the "trust company idea" is a recent one, and only within the past twenty years have these corporations become a prominent factor in the financial world. Until the organization of the Trust Company Section of the American Bankers' Association in 1896, the only publications in reference to trust companies were short chapters in works on banking and an occasional magazine article. Since that time the transactions of the Trust Company Section and articles in banking periodicals and the financial press have constituted the most important contributions to the subject; but in spite of all that has been written on special lines of trust company work, it is still difficult to obtain a general knowledge of what a trust company is and how it does its business.

The aim of the present volume is to describe the functions and organization of the trust company as it exists in the United States to-day. Its history, which dates from the granting of the

first trust company charter in 1822, has already been told in a number of interesting papers and addresses, and is therefore not repeated. Practical experience, consultation of all available literature, the examination of trust companies in various parts of this country, and conferences with their officers, have helped to make a composite picture. The forms and systems described are those which have commended themselves to the authors' judgment as best adapted to the needs of the average trust company. It does not follow that many others are not equally good. The methods outlined in the following pages, although not complete in every detail, are, it is believed, representative of the best systems now employed.

Free use has been made of books and papers on various parts of the subject. To the officers of many trust companies grateful thanks are due for uniformly courteous treatment and much appreciated opportunities of studying their methods.

Special mention must also be made of valuable help rendered by Parker S. Williams, Esq., of the Philadelphia Bar, and by Miss Elizabeth B. Kirkbride.

F. B. K.
J. E. S.

September 25, 1905.

PREFACE TO THE THIRD EDITION

Since the first edition of "The Modern Trust Company" was published in December, 1905, the subject has been one of ever increasing public interest. To this fact must be attributed the general circulation of so technical a book; it has even been reported among the "miscellaneous books most in demand" on the shelves of a public library.

During this time laws have been passed in many states, tending toward the proper control and regulation of trust companies. Renewed emphasis has been given to the necessity for the maintenance of substantial cash reserves by all companies doing a general banking business. The relation of trust companies to the clearing houses has received a thoughtful consideration which bids fair to bring about better understanding between the trust companies and the banks.

In the present edition all references to laws and to clearing house and stock exchange rules have been brought up to date. New titles have also been added to the bibliography.

The panic of 1907, with its immediate demand for corporate vigilance, has driven home the conviction that sound banking principles must be the basis of success in all trust company operations.

F. B. K.
J. E. S.

New York, February 25, 1908.

PREFACE TO THE FOURTH EDITION

The third edition of The Modern Trust Company appeared shortly after the panic of 1907. The fresh realization, caused by the panic, of the need for conservative banking methods, has since borne fruit in considerable legislation and many improvements in practice.

The last five years have witnessed a steady and healthful growth of the trust companies of the United States, together with a more insistent demand for rigid integrity, sound banking, and coöperation between all classes of financial institutions.

The fourth edition appears at a time when the need for a scientific currency system is more generally realized than ever before. The trust companies can take an important part in the creation of an intelligent public opinion.

The new edition of this volume has been brought up to date, and the Bibliography has been rearranged and amplified; otherwise the book is unchanged.

F. B. K.
J. E. S.

New York, October 1, 1913.

TABLE OF CONTENTS

PAGE

PREFACE vii

CHAPTER

I. FUNCTIONS 1
Introduction 1
Banking 6
Corporate Trusts 6
Individual Trusts 8
Care of Securities and Valuables 11
Life Insurance, etc. 11
Government Regulation 11

II. ORGANIZING A TRUST COMPANY 14
Charter and Capital 14
Stockholders 21
Board of Directors 23

III. OFFICERS 28
Introduction 28
President 31
Vice-President 35
Treasurer 36
Secretary 37
Manager of Corporate Trust Department (Trust Officer) . . 39
Manager of Individual Trust Department (Trust Officer) . . 40

IV. BANKING DEPARTMENT 43
Organization 43
Receiving Teller 44
Paying Teller 51
Clearing Trust Company Checks 57
Care of Deposits 61
Reserves 75

CHAPTER		PAGE
V.	BANKING DEPARTMENT (CONTINUED)	77
	Loans and their Records	77
	Money Rate	92
	Investments	93
	Purchase and Sale of Securities	98
	Travellers' Letters of Credit	99
	Foreign and Domestic Exchange	101
	Stock Ledger and Stockholders' Dividends	104
	Expense Account	106
	Petty Cash Receipts	110
	Petty Cash Payments	110
	Payment of Salaries	111
VI.	CORPORATE TRUST DEPARTMENT	113
	Trustee	113
	Fiscal Agent	122
	Registrar	127
	Transfer Agent	129
	Manager of Underwriting Syndicates	138
	Depositary under Plans of Reorganization	140
	Assignee and Receiver	142
	Agent	144
	Accounts	144
	Compensation	145
VII.	INDIVIDUAL TRUST DEPARTMENT	147
	General Organization	147
	Appointment	148
	Care of Stocks and Bonds	153
	Index of Securities	155
	Arrangement of Securities in Vault	159
	Collection of Interest and Dividends	162
	Care of Mortgages	166
	Care of Real Estate	173
	Insurance on Real Estate	181
VIII.	INDIVIDUAL TRUST DEPARTMENT (CONTINUED)	184
	Receipt of Trust Funds	184
	Disbursement of Trust Funds	185
	Record of Individual Trusts	188

CHAPTER PAGE

Individual Trust Ledger 198
Trust General Ledger 201
Investments 204
Compensation 207

IX. Safe Deposit Department 209
Introduction 209
Renting of Safes 213
Deposit of Valuables 219
General Books 222

X. Savings Fund Department 225

XI. Life, Fidelity and Title Insurance, and Suretyship . . 230

XII. General Accounting 233
Controller 233
Company's General Ledger 234
Audits and Examinations 243

XIII. Miscellaneous Subjects 249
Correspondence or Mail Room 249
Clerical Force 256
Messengers, Watchmen, and Cleaners 258
Office Building 259
Luncheon Room 261
Purchase and Care of Supplies 262
Advertising 266

Appendix 269
Trust Companies in the District of Columbia (National Bank Act) . 269
New York Stock Exchange, Requirements from Applicants for listing Stocks or Bonds 279
New York Stock Exchange, Rules for Delivery 290

Bibliography 297
Periodicals and Annual Publications 297
Books and Articles on Trust Companies 298
Trust Companies and their Equivalents in other countries . . . 302
A Few References to Related Subjects 304

List of Forms 307

Index 311

THE MODERN TRUST COMPANY

CHAPTER I

FUNCTIONS

INTRODUCTION

THE trust company supplements the bank. Through a long process of evolution the bank has developed as a means of facilitating the exchange of commodities. The trust company is a still further step in the same process, and, in a highly organized society, it meets needs which the bank is not able to supply.

In a new community the general store forms the centre of the business life of the place. With growth and increasing trade, the private banker sees room for the profitable employment of his funds. The state or national bank meets the needs of further growth. Success and the accumulation of wealth pave the way for the trust company. The bank is organized primarily to serve the needs of active commercial life; the trust company handles funds in less active circulation.

The national bank is permitted to issue its notes, which become part of the currency of the country. Its funds are largely employed in making unsecured loans by discounting the notes of its customers. Trust companies, on the other hand, are not allowed to issue such notes, and are in some states prohibited from discounting paper. The banks are not allowed to make loans secured by real estate, while the trust companies employ a considerable proportion of their funds in this way. National banks are not permitted to make loans exceeding one-tenth of their capital and surplus to any individual. The more liberal provisions in trust company charters have enabled these institutions to make larger advances, and so to take part in the development of the resources of the country on a larger scale. National banks, as a rule, do not pay interest on the accounts of indi-

viduals or firms, but do extend credit to them. Trust companies, however, allow interest on deposits, and are therefore sought by those who desire some return on idle funds but are not in need of unsecured loans.

It is customary for the courts to designate or approve certain trust companies as depositories for funds paid into court, and the effect of such designation or approval would be to relieve executors, trustees, or others acting in a fiduciary capacity and depositing with these companies from liability for loss through their failure. A person charged with due care in the selection of a depository could not be held to have been wanting in such care in choosing as a depository a trust company which the court has itself approved.

The powers of trust companies vary in different states, and when they are created by special legislation, local companies are found with different charter privileges. The capital and surplus of these institutions are liable for their acts in fiduciary capacities, and in some states they are required to deposit with one of the state departments a fund as a special guarantee. The liability assumed is generally accepted by the courts in lieu of the bonds which individuals acting in similar capacities are required to give.

The development of trust companies in the United States has been remarkably rapid. Since 1822,[1] when the first legal authority was given for the exercise by corporations of fiduciary powers, they have steadily grown in number until there are now more than fifteen hundred, distributed as follows: —

Alabama	30	Delaware	12	Indiana	108
Arizona	9	District of Columbia	5	Iowa	29
Arkansas	38	Florida	9	Kansas	4
California	24	Georgia	25	Kentucky	42
Colorado	16	Idaho	10	Louisiana	22
Connecticut	31	Illinois	75	Maine	39

[1] April 17, 1822, The Farmers' Fire Insurance & Loan Company of New York (now The Farmers' Loan & Trust Company), incorporated on February 28, 1822, was granted trust powers by a supplement to its charter.

March 9, 1830, The New York Life Insurance & Trust Company was chartered.

February 26, 1836, The Pennsylvania Company for Insurances on Lives and Granting Annuities of Philadelphia, incorporated as a life insurance company on March 10, 1812, was granted trust powers by a supplement to its charter.

March 17, 1836, The Girard Life Insurance, Annuity & Trust Company of Philadelphia (now The Girard Trust Company) was chartered.

All these companies are still flourishing.

Maryland	21	New Mexico	10	Tennessee	73
Massachusetts	56	New York	78	Texas	52
Michigan	6	North Carolina	38	Utah	9
Minnesota	4	North Dakota	5	Vermont	26
Mississippi	19	Ohio	60	Virginia	19
Missouri	49	Oklahoma	10	Washington	20
Montana	7	Oregon	20	West Virginia	22
Nebraska	13	Pennsylvania	260	Wisconsin	9
Nevada	1	Rhode Island	11	Wyoming	5
New Hampshire	4	South Carolina	17	Hawaii	5
New Jersey	86	South Dakota	12	Total[1]	1555

Their business in all departments has shown a steady increase, and the trust companies of the United States to-day carry deposits amounting to over $3,858,300,000.[1] Net deposits in the 7397 national banks aggregate $5,891,670,000.[2]

In some states commercial banking and trust powers are exercised by the same companies. In such cases, separate departments are maintained for the various classes of business. Another method is for the same individuals to organize a national bank and a trust company, the former under national and the latter under state laws.

The securities company or trust company organized under state laws and controlled by a national bank with the stock interest in the former distributed among the owners of the stock of the bank and evidenced by indorsement on its certificates is still another expedient which has been resorted to in order to enable a closely affiliated and controlled organization to exercise legitimate functions which are however outside the province of a national bank. The practice in Illinois of allowing a banking company to qualify under the law granting trust powers, is based on a sounder principle than the close relation between institutions acting under separate charters, amenable to different laws, but controlled by identical interests.

The earning power of trust companies has equalled and even exceeded that of the banks, and the stock of those companies which are well established and doing a flourishing business sells at such a premium that investment in it at its market value gives a very low return.

[1] June 30, 1912. Compiled from "Trust Companies of the United States," published by the United States Mortgage & Trust Company, New York.

[2] June 14, 1912. Report of the Comptroller of the Currency, 1912.

Trust company failures have been few and far between, and where they have occurred they can be traced to a disregard of sound banking principles and to the assumption of unwarranted risks. Even in the case of companies which have failed there is no record of any impairment of trust funds, whatever loss there was having been borne by the stockholders and, to a less degree, by the depositors. This fact, the result of the absolute separation of trust assets from assets belonging to the company, is the strongest argument for the employment of trust companies in fiduciary capacities, and explains their rapid growth in popular favor.

The literature put out by these institutions invariably recites the advantages to be gained by dealing with them instead of with individuals. The following is a good example of such reasoning: —

"The Advantages of a Trust Company as Trustee

"A trust company is preferable to individual trustees, because it possesses every quality of desirability which the individual lacks, to wit: —

(1) Its permanency; it does not die.
(2) It does not go abroad.
(3) It does not become insane.
(4) It does not imperil the trust by failure or dishonesty.
(5) Its experience and judgment in trust matters are beyond dispute.
(6) It never neglects its work or hands it over to untrustworthy people.
(7) It does not refuse to act from caprice or on the ground of inexperience.
(8) It is invariably on hand during business hours and can be consulted at all times.
(9) Its wide experience of trust business and trust securities is invaluable to the estate.
(10) It is absolutely confidential.
(11) It has no sympathies or antipathies and no politics.
(12) It can be relied upon to act up to its instructions.
(13) It does not resign.
(14) All new investments of value suitable for trust estates are offered in the first instance to trust companies, and in that way it has a choice of valuable security; and as its purchases are on a scale of magnitude, it can usually buy at a rate which is lower than that at which the individual trustee can purchase."

The most common objection to the appointment of corporate trustees is thus stated by Augustus Peabody Loring, Esq.:[1] —

[1] "A Trustee's Handbook," p. 15.

"The trust companies, which have of late years become so numerous, to a considerable extent do away with the element of personal risk attaching to an individual trustee; but they lack the advantages of personal management. These companies sometimes fail from improper management as utterly as individuals do, and as a rule the lack of personal management results in securing the minimum return only on the amount invested, and lacks the great advantages often secured by the able personal oversight of individual trustees."

Thomas Leaming, Esq., viewing the matter from the standpoint of the beneficiary, says, "No doubt there are some objectionable features in having for a trustee a corporation, which has neither a body to be kicked nor a soul to be damned." [1]

The question, after all, comes back to the personal qualifications of corporate officers and individuals. If the former are less capable than the latter, the fault is with the particular company, — not the system, and if interest returns are sometimes less under corporate management, this fact is more than equalized by the added safety to the corpus of the estate.

A "Trustee Company" has been suggested as a proper title for the company doing a legitimate trust business, and is the name used in Australia and in New Zealand. In some states the use of the word "trust" in corporate titles is now regulated by law. Confusion has arisen in the popular mind between the trust company and the trusts or industrial combinations.

The usual functions of a trust company are: banking in a more or less limited form, execution of corporate trusts, execution of individual trusts, care of securities and valuables. In addition, other functions are sometimes exercised, such as life, title, and fidelity insurance, and the business of becoming surety. The earlier companies in the United States were chartered to manage individual estates only and to act in certain fiduciary capacities; the recent development of the trust company has been in the direction of banking functions and corporate trust business.

It is worthy of note that the life insurance companies which originally secured trust powers have, with but few exceptions, given up their life insurance business, and that most of the fidelity insurance and surety business is given over to companies which now make a specialty of such risks. In the same way, many title insurance companies

[1] "Trust and Title Insurance Companies," *Lippincott's Magazine*, Vol. XLII, p. 887.

transact a banking and trust business but tend to confine themselves more and more to title insurance. In other words, the fact is being recognized that the assumption of vast risks contingent on future occurrences is not compatible with the absolute security which is essential in the transaction of legitimate trust business.

BANKING

The banking functions of trust companies may include any or all of the following: —

The receipt of money deposits payable on demand and subject to check, or payable at a fixed date, or according to special agreement. Interest is usually allowed on all deposits above a fixed minimum amount or on the total sum.

Money advances secured by the hypothecation of stocks, bonds, life insurance policies, bonds and mortgages, or other personal property.

Real estate loans, secured by bond and mortgage. It is customary to loan not over two-thirds of the value of improved property; when the property is unimproved, not more than half.

Discounting paper is engaged in principally by companies transacting a commercial banking business. The purchase of unsecured paper is permitted in some states where discounting is not allowed.

The purchase and sale of securities.

Trust companies sometimes guarantee issues of bonds, or at least set their stamp of approval upon them.

The issue or guarantee of letters of credit, and the transaction of a foreign exchange business.

The care of savings deposits. For this purpose a separate department is usually maintained.

CORPORATE TRUSTS

Among the most important functions of a trust company are those relative to the business of other corporations.

"Of late years the trust companies in the Eastern cities have been selected as trustees instead of individuals whenever the law of the State where the property was situated allowed such selection. Trust companies have manifold advantages over individuals in such a relationship; they do not die; the large amount

of financial business which they daily transact provides them with the machinery for such purposes; while their well-known names stand as evidence to the purchasing public that at least the necessary formalities have been complied with. Beyond that responsibility the trustees of corporation mortgages usually assume none.

"In recent years the trust companies have shown a tendency, when acting as mortgage trustees, to recognize a greater moral responsibility than they at first were willing to bear. Trust companies did not, of course, intend to appear as in any way guaranteeing the bonds to which they certified, though that seems often to have been the erroneous opinion of the unthinking; but trustees now acknowledge themselves bound within the limits of the mortgage to use their influence to protect the interests of the bondholders. A trust company which should now allow the issue of unsecured bonds because of some glaring defect in the language of the mortgage, would not longer be morally excused by financial opinion, though perhaps held technically innocent.

"One way in which this sentiment attributing some sort of ethical responsibility to trustees of corporation mortgages manifests itself is through slight alterations in the wording of the mortgage itself. The old language was that the trustee was to be held harmless under all circumstances. Now the trustee is often found willing to assume responsibility at least for gross negligence of servants or clerks not carefully selected. If to some such phrase be added a more careful drawing of the mortgage as to its provisions against unauthorized issues of bonds, a better compliance with the ethics of the situation would be had; for it is undeniable that a part of the public complaint against the fraudulent issue of bonds should be directed against the inadequate safeguards imposed in the mortgage rather than against the trustee."[1]

As trustee under corporate mortgages and trust deeds, the trust company acts for the bondholders. It is customary for it to authenticate each bond issued subject to the provisions of the mortgage, to represent the bondholders in case of default, and to exercise such other functions as may be provided in the mortgage.

As fiscal agent it dispenses coupon and interest payments on bond issues, and dividends on stock. It receives sums set aside as sinking funds to provide for the retirement of obligations at maturity, or when bonds are subject to redemption, draws the specified amount by lot and pays the principal.

As registrar the trust company authenticates certificates of stock and bonds in order to prevent an over-issue, and to reduce the chance of loss or theft.

As transfer agent, the company attends to perfecting transfers of ownership for stock and bond issues or parts thereof.

[1] "Corporation Finance," Thomas L. Greene, p. 59.

As manager of underwriting syndicates, the trust company issues the prospectus and markets the securities of corporations which are being launched, or of established companies which are putting out new securities.

In railroad and other reorganizations, the trust company takes a prominent part, acting both as a depositary for, and as a representative of, the committees which formulate and execute the plans of reorganization. Its officers often have a large share in the preparation of such plans.

As assignee and receiver, the trust company acts in the same capacity for corporations as for individuals and firms or partnerships, assisting in winding up insolvent businesses and in conducting embarrassed ones.

INDIVIDUAL TRUSTS

The execution of individual trusts is the function originally assumed by trust companies. The various other forms of business which are now engaged in, have, with the exception of life insurance, been later developments of the trust company idea. The earliest power granted these companies was to receive moneys or other property, real or personal, in trust. The trust company now also acts as executor and administrator of the estates of decedents.

As executor appointed by the will of a decedent, it takes out letters testamentary upon probate of the will, advertises, files inventory and appraisement, pays debts, collects claims, makes the requisite accounting to the probate or orphans' court, and makes distribution of the estate in accordance with the terms of the will and the court's decree.

As administrator acting under appointment of the register of wills or probate court, it performs similar duties, distributing the estate in accordance with decedent's will if there is one, or if there is none, in accordance with the intestate laws of the state, which specify the order of succession and distributive shares in the case of estates of decedents leaving no wills. There are different kinds of administrators, in any of which capacities a trust company may be called upon to act. In Pennsylvania, for example, there may be (*a*) a general administrator, when there is no will; (*b*) an administrator *cum testamento annexo*, when decedent has left a will without naming an executor or the executor named refuses to act or has died;

(*c*) an administrator *de bonis non* when the first administrator has died or has been discharged before the estate has been fully administered and his successor is appointed to complete his work [this may occur in both cases (*a*) and (*b*); if it occurs where there is a will, the new administrator is called administrator *de bonis non cum testamento annexo*]; (*d*) an administrator *pendente lite*, when appointed to take charge of an estate pending litigation on the will of the decedent; (*e*) an administrator *durante minoritate*, when appointed to act during the minority of an executor; (*f*) an administrator appointed under ancillary letters to act in a particular state when other letters have been issued elsewhere.

As trustee under will, the trust company carries out the provisions of the will, investing and managing the estate or particular fund in accordance with the directions of the testator. As such it may hold real and personal property.

As trustee under deed or private agreement, a contract is entered into between the company and the owner of the property, by which the title to the property is vested in the corporation subject to the terms recited in the instrument. Such deeds of trust may be revocable or irrevocable. Marriage settlements are frequently made in this way.

Accounting to the probate or other proper court by testamentary trustees is generally regulated by law. Accounting by trustees under deed is usually regulated to some extent at least by the provisions of the instrument creating the trust.

The trust company acts as guardian, curator, or committee of the estates, and in some states, of the persons of minors, those who are insane or mentally incompetent, spendthrifts, drunkards, and any other persons not legally qualified to take charge of their own affairs. In the case of a minor, the trust terminates on the ward's becoming of age; in other cases, when the disability is removed, or in accordance with a decree of court. These appointments are frequently made by order of court, and to it accounting must be made. In some states the company is styled "conservator" when caring for the estates of persons of unsound mind.

When acting as attorney in fact, the company obtains its authority by virtue of a letter of attorney which usually is or can be recorded, conveying certain definitely specified powers. This may either be to

perform a single act — such as to satisfy a mortgage — or may be broader and continuing, granting authority to sell and transfer securities and collect income. A general power of attorney, as the term indicates, is a delegation to another of the general powers of the person appointing — as to payments, collections, transfers of property, and all transactions of a business nature.

As agent merely, the company takes charge of property, real or personal, for its owner, but such agency does not imply nor ordinarily include authority to sell or convey title.

As assignee the trust company takes possession of the property assigned for the purpose of carrying out the terms of the deed of assignment in the interest both of the assignor and the creditors of the assignor. The deed of assignment is an acknowledgment of an embarrassed or insolvent condition, and the efforts of the assignee are directed to realizing as much as possible from the assets intrusted to its management.

As receiver, the duties may be very similar to those of assignee, although they are usually broader in scope. The business may not be insolvent, and the application for the appointment of a receiver may be due to temporary difficulties only. By such an appointment the property is preserved intact and equal treatment is afforded creditors. An able receivership often results in the adjustment of difficulties and the return of the property to its owners on a paying basis. While in the case of assignee the appointment is by the individual, partnership, or corporation executing the deed of assignment which specifies the powers and duties of the assignee, in the case of receiver the appointment is by a court and the company so appointed acts as an appointee or ministerial officer of the court, and as such is directly subject to the court's orders.

As custodian or depositary, the trust company sometimes holds property the title to which is in dispute, delivering the same when the ownership is legally determined.

In taking charge of escrows or conditional instruments or deeds delivered to a third party until the condition is performed, the trust company acts in a similar capacity, as the joint representative of both parties.

The trust company acts as the representative of both the living and the dead in practically every legal relation in which an individual

is qualified to act. Its function is not only to keep intact the estate of which it has charge, but to look to and safeguard the interest of every beneficiary.

CARE OF SECURITIES AND VALUABLES

The functions already recited have resulted in the assumption of the duty of caring for property other than that of the estates held in the trust department. In the safe deposit department, individual safes are rented, bulky packages — not containing stocks or bonds — are received on storage, certificates of deposit covering securities are issued, and provision is made for access to, and examination of, the property so deposited. For personal property received on storage, the charges are either according to bulk or value. Wills are usually receipted for and kept without charge.

LIFE INSURANCE, ETC.

Issuing life insurance policies, and granting annuities payable during the life of the beneficiary, were formerly important trust company functions, now usually delegated to companies making a specialty of such business.

The examination and insurance of real estate titles is a later development often found in connection with the usual trust functions.

Fidelity insurance and suretyship providing against loss by reason of the dishonesty of individuals and the non-performance of obligations, contracts, etc., have often been combined with the various forms of trust company activity. They are, however, largely passing into the hands of corporations especially organized for the transaction of such business.

GOVERNMENT REGULATION

Hon. William Barret Ridgely, Comptroller of the Currency, in a recent address,[1] while discussing the tendency of banking corporations under state control to increase more rapidly than national banks, said:—

"Probably the principal reason for this tendency is the great increase in the number of trust companies which have been organized during the last ten years.

[1] "Annals of the American Academy of Political and Social Science," Vol. XXIV, p. 23.

These companies, organized under State laws originally designed to provide for companies doing a strictly trust business, are taking advantage of the liberal character of those laws, and a very large portion of the new organizations are merely commercial banks, having trust company privileges perhaps, but in reality doing comparatively little strictly trust company business. The laws of the different States, particularly in regard to the cash reserves to be held, and loaning money on real estate security, are so liberal that organizations of this character have a great advantage over the national banks in the inducements which they can offer their customers. It is naturally to be supposed that any one contemplating the organization of a new bank, other things being equal, will be inclined to do so under the laws which allow the greatest freedom from governmental interference, restriction and control."

An examination of the laws of the various states is interesting as showing the attempts which are being made at regulation. Most of these laws have been enacted within recent years and to-day there are but few states which do not have such statutes on their books.

The step which Massachusetts first took in requiring a legal reserve to secure deposits has been followed by similar action in other states. In general, the wisdom of prohibiting companies which engage in the care of estates from assuming excessive risks is becoming better recognized. The promotion and underwriting of commercial ventures and the assumption of unknown risks are functions not compatible with the proper exercise of the duties of trustee or executor.

Hon. Frederick D. Kilburn, State Superintendent of Banks of New York,[1] recently said: —

"This (state) control should be sufficiently comprehensive to regulate the organization, provide ample supervision, and restrict investment, in a way that will conserve, in so far as human ingenuity can provide, the interests of the public. Investment by such institutions, in untried securities, promotion of questionable enterprises, speculative underwriting of stock or bonds, and all other acts of a nature involving dangerous investment or promotion of individual interests, should not only be prohibited, but made a penal offence if indulged in contrary to law."

Such views are held by many people who see with concern the assumption by trust companies of functions and risks which were never dreamed of by those who framed the laws under which they act.

The supervision of trust companies by the separate states provides an elastic system to supplement the rigidly guarded powers of the

[1] "Annals of the American Academy of Political and Social Science," Vol. XXIV, p. 42.

national banks, and can adapt itself to changing conditions and enlarging needs, leaving for solution according to the requirements of each section of the country such questions as proper functions, reserves, and the authority to establish branch offices. Excessive restrictions and petty interference by state officials or the enactment of unwise laws by the several states might lead to a change in national legislation, permitting trust companies to incorporate under federal laws, as suggested by the Secretary of the Treasury in a recent report.[1] Mr. Shaw says: —

"I suggest the propriety, therefore, of a law giving trust companies of large capitalization in large cities the privilege of incorporating under Federal law, with corresponding supervision. If such right were extended, the more conservative would probably avail themselves thereof, and this would compel others to cultivate conservatism. It would not be necessary to extend to them the distinctive prerogatives of national banks beyond the capacity of being designated financial agents of the Government, thereby justifying Federal jurisdiction; nor should they be brought into competition with commercial banks, but they should be required to keep an appropriate, though relatively small, reserve within their own vaults, lest in times of financial distress their large deposits with national banks increase rather than diminish the evils of financial panics."

Such permissive legislation would doubtless prove a salutary check to hostile action by state lawmakers. National legislation now provides for the incorporation and regulation of trust companies in the District of Columbia.[2]

In New Zealand the creation of the Public Trust Office and the consequent assumption by the state of the functions of executor, administrator, and trustee, indicate a more radical line of development in government regulation,[3] but one which is not likely to be imitated in the United States.

Great Britain has followed the example of New Zealand by the passage of the Public Trustee Act of 1906[4] which became operative on January 1, 1908. The act applies to England and Wales, but does not extend to Ireland or Scotland. Its success has not prevented the exercise of trust functions by a number of the large banks, under recent amendments to their articles of association.

[1] "Annual Report of the Secretary of the Treasury," for the fiscal year ended June 30, 1904, p. 48.

[2] See Appendix, p. 269.

[3] "Trustee Companies," Robert C. Nesbitt, London.

[4] Public Trustee Act, 1906 (6 Edw. 7, Ch. 55).

CHAPTER II

ORGANIZING A TRUST COMPANY

CHARTER AND CAPITAL

Trust companies are organized under special acts of legislature, or under general corporation laws of the various states. Most of the older companies were organized under special acts, and as their business grew and developed, further special acts of legislature, in the form of supplements to the original charter, granted them additional powers to provide for altered conditions.

Although there is still no uniformity of practice, in many of the states trust companies are organized under general corporation laws. In the states where no such laws exist, trust companies are still incorporated by special act of legislature; and in a few states there is a choice of either method.

Owing to the wide powers of trust companies, these organizations often prove profitable where a state or national bank could not succeed. Before organization is decided upon, the promoters of a company should satisfy themselves that enough business can be secured to make the institution a success. In eras of great commercial prosperity, the possibilities of securing profitable business in dull times should be carefully weighed. The amount of capital having been fixed, a preliminary organization is effected and the necessary legal formalities are complied with. These formalities vary so much in the different states that it is impossible to give a general description of the process. The main features of the law in New York, Pennsylvania, Massachusetts, and Illinois will here be referred to, as in these states the trust company idea has found its fullest development.

The general trust company law of New York provides that thirteen or more persons may form such a company. They are required to execute under seal and acknowledge an organization certificate in duplicate, setting forth the name, location, amount of capital and number of shares, name and residence of each member and the term of existence, not exceeding fifty years, together with a declaration that each member of the corporation will accept the responsibility and

faithfully discharge the duties of a director therein if elected. The minimum capital required varies from $100,000 in cities or towns having a population of not over 25,000, to $500,000 in cities and towns having a population of over 250,000. Notice of intention to organize must be advertised for four weeks and a copy sent to every other trust company doing business in the same city, at least fifteen days before filing the certificate. Proof that this requirement has been complied with must be filed, together with one of the organization certificates, with the state superintendent of banks, the other organization certificate being filed with the clerk of the county in which the company proposes to do business, within sixty days after being acknowledged by the incorporators. The state superintendent of banks has full authority to refuse to authorize such a company to organize or commence business if in his judgment the new organization is not needed, or if those named in the certificate are not in his judgment fit persons to conduct such a business or to command the confidence of the community. This authority is apparently not a dead letter, but seems frequently to have been exercised. When the superintendent is satisfied that the form of the certificate is correct, and that all statutory requirements have been complied with, including the full payment in cash of the capital, a certificate is issued by him, authorizing the company to commence business, which certificate is filed with and recorded by the county clerk together with the original certificate of organization previously filed with him. Before active business may be entered upon, a list of the stockholders with their addresses must be filed with the superintendent of banks.

In Pennsylvania, the older trust companies were all incorporated by special acts of legislature. New organizations are chartered under the general corporation laws of the state. The older companies, by accepting the provisions of the general corporation laws, are permitted to take advantage of the various powers conferred by these statutes. Under the general corporation act and its supplements a company may be formed by the voluntary association of three or more persons. The charter or articles of incorporation must be subscribed by two or more persons, at least one of whom must be a citizen of Pennsylvania. This document must set forth the name of the corporation, the purpose for which it is formed, the place where its business is to be transacted, the term for which it is to exist, the

names and residences of the subscribers and the number of shares subscribed by each, the number of the directors and the names and residences of those who are chosen for the first year; also the amount of capital stock and the number and par value of the shares. It must further set forth that ten per cent of the capital stock has been paid in cash to the treasurer of the intended corporation, and also state the name and address of such treasurer. It must be acknowledged before the recorder of deeds of the county in which its chief operations are to be carried on or its principal office is located, or before a notary public of the commonwealth or a justice of the peace, and be accompanied by an affidavit as to the truth of the statements contained in it. Notice of intention to apply for a charter must be advertised in the proper county for three weeks. The certificate of incorporation accompanied by proof of publication of such notice is then presented to the governor and a bonus of one-third of one per cent of the amount of capital stock the company is authorized to have, is paid to the state treasurer. If upon examination the governor finds the certificate of incorporation to be in proper form and in accordance with the provisions of the law, he indorses his approval thereon and directs that letters patent be issued incorporating the subscribers and their associates and successors into a corporation by the name chosen. The certificate is recorded in the office of the secretary of the commonwealth and also in the office of the recorder of deeds in and for the county where the business is to be carried on. This completes the process of incorporation, but before the various branches of business authorized can be commenced such corporation is required to have a paid-up capital of $125,000, an affidavit of which fact, made by the treasurer, must be filed with the secretary of the commonwealth, and the names of the company's officers must be filed in the office of the auditor general.

The Massachusetts Act of 1904 relative to the incorporation and reserve fund of trust companies provides that fifteen or more persons who associate themselves by an agreement in writing for the purpose of forming a trust company, may, upon compliance with the requirements set forth in the act, become such a corporation subject to the general laws relating to such corporations. The agreement must state the name of the company, the purpose for which it is formed, its location, amount of capital stock, and number of shares. Each

subscriber is required to state his address and the number of shares he takes. A notice of the intention to form such a trust company is given to a board of commissioners, and advertised for three weeks in the town in which it is proposed to establish the company. Within thirty days after the first publication of the notice, application is made for a certificate that the public convenience and advantage will be promoted by the establishment of such a trust company. The board has power to refuse the certificate, in which case the application can be renewed after one year. The law further provides for the details connected with the preliminary organization of the company and for filing certificates and records of organization. After approval, the certificate is filed with the secretary of the commonwealth, who, upon payment of the requisite fee, issues a certificate of incorporation. The capital stock cannot be more than $1,000,000 nor less than $100,000, the shares to be $100 each. No stock can be issued until the par value of such shares has been actually paid in cash. After the entire stock has been issued, a list of the stockholders, with their addresses and holdings, is filed with the board of commissioners, who, after verification of the facts as reported and proof that all the legal formalities have been complied with, issue a certificate authorizing the company to commence business.

Massachusetts was the first state to require the trust companies to carry a fixed reserve to secure deposits. This reserve must equal fifteen per cent of the aggregate amount of deposits exclusive of savings and time deposits, except in Boston where the reserve must be twenty per cent. Two-fifths of the reserve must be in lawful money; the remainder may be on deposit with trust companies in Boston authorized to act as reserve agent or with national banks in Massachusetts, New York City, Philadelphia, Chicago or Albany, but not exceeding one-fifth of said reserve may be in bonds of the United States or the State of Massachusetts, provided the lawful money held shall at all times equal five per cent of all its time and demand deposits, exclusive of savings deposits. More stringent reserve requirements are provided for in the case of trust companies in Boston which act as reserve agents.[1] The provisions as to reserves apply to all trust companies, whether incorporated under the general laws of the state or by special act of legislature.

[1] Chapter 520, Acts of 1908, Sec. 10.

In Illinois there is a general corporation act, an act concerning corporations with banking powers, and an act providing for and regulating the administration of trusts by trust companies. Trust companies organized under the general corporation act are debarred from carrying on a banking business. Corporations organized under the banking act have an imperfect power to accept and execute trusts, which power may be perfected by the lodging of a deposit with the auditor of public accounts in compliance with the provisions of the trust act. In the case of companies of the latter character, incorporation is effected by making an application to the state auditor for permission to organize, stating the place of business, the amount of capital, the name under which it is desired to organize, and the time for which the association or corporation shall continue. This statement shall be under seal and acknowledged before some officer authorized to take acknowledgments to deeds. Upon compliance with these requirements, permission is granted by the auditor to organize, provided no permit has been granted to any other association of the same name. The act requires that the capital stock shall be divided into shares of $100 each, and provides for the opening of books of subscription to the capital stock, for organization by the subscribers and for the election of directors who are required to take an oath "of fealty to the association," with the pledge that they will not knowingly violate the provisions of the act. Lists of stockholders are given to the auditor and such other information as he may require. After organization and the full payment of capital stock, the auditor is required to make a thorough examination into the affairs of the association, and if fully satisfied he issues a certificate authorizing the commencement of business. Upon the recording of this certificate, incorporation is completed. The minimum capital required for such a company varies according to the population of the city, town, or village in which it is located, — from $25,000 when the number of inhabitants does not exceed five thousand to $200,000 in cities or towns with a population of fifty thousand or more. The deposit referred to above as required by the trust act is a deposit of $200,000 in cities or towns of one hundred thousand inhabitants or more, and $50,000 in cities or towns of less than one hundred thousand.

The charter granted by any state defines the scope and purpose of the business and the limits within which its functions are confined.

The by-laws are framed and adopted by the stockholders, but must contain no provisions contrary to the laws of either state or nation. They vary according to the nature of the business and the opinions of those who draft them. They should be simple but comprehensive, and should govern matters not covered by charter provisions. They usually regulate the time and manner of holding elections, stockholders' and board meetings, define the duties of directors and officers, and provide for the general management of the business.

The board of directors, by resolution, also adopts rules, more particularly defining the duties of employees and regulating the details of office management which the officers are left to carry out. A corporate seal is adopted, which is affixed to documents executed by the company.

An easily accessible location should be chosen by the company, and the building should be planned with a view to the convenience of the customers as well as of the office force. In states where branch offices are allowed, these are generally used for the receipt and payment of deposits, and occasionally for making loans. They may also contain safe deposit vaults. Sometimes they are built in a shopping district or in the suburbs, in order to hold or increase business which might not be secured at the main office.

The original shares of stock are often issued at a premium, in order to provide a surplus fund from the start. The amount of capital should be ample to provide for the proper conduct of the business and insure financial stability. It should, however, not be so large that it cannot be profitably employed without taking questionable risks. A surplus fund should be accumulated out of the undivided profits, before any distribution of dividends is made to the stockholders, — otherwise, an unexpected loss may impair the capital and lead to disastrous results.

As business grows and develops uses for additional capital, it is not unusual to increase the amount of capital stock, and offer the new shares to the stockholders either at their par value or at a figure in excess thereof but somewhat lower than the market value of the old stock, the amount received above the par value being used to increase the surplus fund.

When the stock of the company is "listed" on the local stock exchange, the rules of the exchange have to be complied with, as to

statements of condition, declaration of dividends, transfers and registration of stock, the form of the stock certificates, and various details.

The capital stock of trust companies is more or less inactive in the market, and when the business is successful but small amounts are offered for sale. The larger part of such offerings consists of the holdings of estates in the course of settlement. The shares are moreover often high-priced, selling, it may be, for many times their par value and at a figure which gives a low return on the investment. The result is a rather limited market for this type of investment, so that in spite of the elimination of the speculative value attaching to securities which are readily bought and sold and of which there is always an available supply, fluctuation in the price of trust company shares may be induced by buying or selling orders of even moderate amount. It therefore becomes important to consider what effect such variation in price may have on the business of the company. It is notorious that the public buys on a rising market and sells on a falling one. As fickle rumor, combined with a drop in the value of its shares, may adversely affect the clientele of a trust company, it is to the best interest of the corporation that its shares should sell at as nearly uniform a figure as possible, with a tendency to rise gradually with increase in business and profits. The ideal condition is naturally that of a profitable business whose shares are always in demand, so that the floating supply can be left to take care of itself.

To lessen the danger from temptation to "support the stock" by buying shares offered for sale but for which there are no bidders, in some states restrictions have been imposed by statute prohibiting trust companies from making loans on their own shares. The funds of a trust company should never, directly or indirectly, be used for this purpose, whether there be legal restrictions in the way or not.

It is, however, perfectly proper for those who have an intimate knowledge of the business and a belief in its future, not only to employ profitably their idle funds, but to aid materially the status of the company by purchasing such shares as come upon the market, for which ready purchasers cannot be found.

As trust company shares have an intrinsic value and also represent an intangible but none the less real "good-will," they are — when the

company is doing a legitimate and growing business — an attractive form of investment. Trust company shares, the country over, have returned handsome profits to their owners, and the proportion of failures to the total amount invested in these corporations has been exceedingly small.

STOCKHOLDERS

Many life and fire insurance companies and savings institutions are organized on a mutual basis. Trust companies and banks are organized as stock companies, but some trust companies which still carry on life insurance keep up a mutual organization in that department. In the mutual insurance company, a number of individuals combine for the purpose of collectively transacting business which it would be impracticable to transact individually. The general law of averages enables them to take many risks safely at low cost when singly the business would be hazardous in the extreme. In the same way, the small savings of many depositors can be safely and profitably employed where the individual balance cannot be put to profitable use and is in constant risk of loss when kept in the proverbial stocking or tea-pot. Purely mutual companies have no capital stock, and the profits are divided among the policy-holders or depositors.

In organizing a trust company, the promoters and original subscribers provide the necessary capital for the conduct of the business, becoming the owners of stock in amounts representing their respective subscriptions, and thereby entitled to receive a return on the capital so invested, in the form of dividends paid out of the profits of the business. The capital stock of a trust company is usually divided into shares of the par value of either $50 or $100 each.

The stockholders, as the owners or proprietors, being often many in number and widely scattered, delegate the management of the company's business to a board of directors as their representatives. The directors in turn choose skilled officers to direct the details of the business, confining their attention as a board to the control of its general policy.

The stockholder has definite legal rights and privileges. He attends and votes at stockholders' meetings, and the vote of the majority is the final authority to which both president and directors must bow.

The stockholders meet annually to receive reports and choose directors, and in many companies it is customary on these occasions to provide a luncheon, which gives an opportunity for personal contact and social intercourse between the officers and directors and those whose interests they represent. The routine of the annual meeting generally consists in the choice of two stockholders to act as chairman and secretary respectively, the reading of the minutes of the last meeting and of reports covering the year's business, and the election of directors. Tellers are chosen who conduct the election, by ballot, and report the result to the meeting.

Each share of stock held entitles its owner to one vote, and as voting by proxy is usually permitted, a large stock vote is often recorded when there are but few persons present. The regulations as to voting by proxy are as a rule fixed by statute, but occasionally among older companies one finds curious by-law provisions, which look to preventing an overthrow of the established order. One such provision is that an individual shall not vote on the proxy of more than one stockholder. The period for which a proxy holds good is usually limited.

In times of prosperity the stockholders' meetings are likely to be cut-and-dried affairs, all the details having been prearranged, even to the perfunctory resolution of thanks to the officers and directors; but this is not always the case.

Sometimes it is wise to provide beforehand against attempts of stockholders to make trouble, for the reputation of a financial corporation is easily hurt by the knowledge on the part of the public that its administration is not harmonious. Nothing so arouses a stockholder's suspicions as an impression that information is being withheld which may have an important bearing on the business of the company. The stockholders should always be given frank and full statements of condition, and should never be allowed to feel that information to which they are entitled is kept from them. There is a point beyond which secrecy becomes an injustice if not a crime. It is a good rule not only to give all information which is required by law to be made public, but as much more as can safely be given without breaking confidences on the one hand or disclosing facts which could be made use of by competitors on the other. While it is wise to show the directors the gross amount of

both gains and losses, it may, however, be poor policy to show stockholders more than the net result, as some of them might not understand that a banking business, however well managed, cannot avoid an occasional loss, and to give them all the details in such a case might result in an entirely unjustified lack of confidence.

Owing to the nature of a trust company's business, it is a decided advantage to have stockholders of solid and responsible character, who hold the shares as a permanent investment and not for speculative purposes. The stockholders, on their side, should realize that it is for their direct interest to send business to the company, and by cordial coöperation with directors and officers to increase the prosperity of the corporation.

Under the National Banking Act the stockholders of national banks are liable to the extent of the amount of their stock therein at the par value thereof, in addition to the amount invested in their shares. Laws vary as to state banks and trust companies. The charters of the older companies incorporated by special acts of legislature usually provided that the shareholders were not individually liable for debts of the corporation beyond the amount required, if any, to make their stock full paid. This fact has made such shares an attractive form of investment to many conservative people who were unwilling to hold bank shares carrying a double liability. There is, however, at present a tendency in some quarters to require a liability over the amount invested in the case of new trust companies organized under general corporation laws, and in some states, such as Massachusetts, an older company operating under a special charter can only obtain the advantages of the general law by agreeing to accept all its conditions including that of increased liability of shareholders. This has deterred certain of the older companies from coming under the later laws, on the ground that the advantages to be obtained were not sufficient to compensate for the added liability which would have to be assumed by the shareholders.

BOARD OF DIRECTORS

The success of any corporation, industrial or financial, depends in great measure on the character, judgment, and ability of those who direct its affairs.

The detail and routine business of a trust company is managed by the paid executive officers, while the larger questions of policy are determined by the directors, among whom one or more of the executive officers are found. The first qualification of a director usually required by the by-laws, if not by statute, is that he be a holder of stock, but as an able man of moderate means can often render important service, the prescribed number of shares is generally small. Indeed, a directorship is frequently offered to a desirable candidate who buys the few necessary shares on or before his election to the board.

While the larger stockholders generally have representation on the board in proportion to their holdings, not many of them act as directors, both because the board is composed of relatively few as compared with the total number of shareholders, and because the capitalist is often averse to assuming duties which can be performed to his satisfaction by an appointee sure to conserve his interests. It is common to hear that a director represents certain large interests, and in this case even though his own holdings of stock may be merely nominal, his voice carries great weight in the management of the corporation.

As the director is primarily responsible for the broader questions of policy, it is essential that for this important position men should be chosen who are of known probity and bear an unsullied name and character, who stand for honorable dealing, for progress, and who in private life and business have demonstrated their capacity for success.

The list of directors is apt to be scrutinized with as much care as the balance sheet by the prospective customer or purchaser of stock. It is therefore most important that men whose character cannot stand the light of publicity, or those who are narrow or unscrupulous, should never be permitted to become directors. When a man has failed in the conduct of his personal affairs, he should be given a directorship only after the most serious consideration of the circumstances responsible for past disasters. "Their fathers' sons," too, are at times questionable assets on a board of directors, and a sentimental desire to perpetuate the name and family connection should never be allowed to influence a choice unless there are other qualifications for the position.

The number of the directors being fixed by the by-laws of the corporation, it can, within prescribed legal limits, be increased or decreased without much difficulty. In this way the services of a desirable man may often be secured even though there has previously been no vacancy. When a small company is absorbed by a larger one, it is not uncommon to enlarge considerably the board of the consolidated institution, so as to retain desirable members of the board of the smaller concern. The largest companies usually have a considerable number of directors, in order to give the institution a proper standing in the eyes of the community, and to secure business through as many channels as possible.

If a trust company has a small board, it is possible and indeed necessary that each member should keep closely in touch with its business. In a large board it is not practicable for all the members to give attention to many matters of detail. The committee system is a natural result, and it is the usual practice in large boards to delegate duties to committees, which in turn report to the board itself. A large board, using the reports of committees as a guide to intelligent action on the various matters brought before it, is a satisfactory organization for doing business, and safeguarding and promoting the affairs of the company.

When, however, as is too often the case, the functions of the board are delegated to a small executive committee composed of the president and two or three other members, the system can become very dangerous. There are to-day many directors who, although willing and anxious to do their share of work, find themselves almost in the position of outsiders, their only duties, apparently, being to lend the use of their names, and attend cut-and-dried monthly meetings of the board at which no insight into the affairs of the company is given them and they are only called on to ratify the acts of their colleagues on the "inside."

The by-laws of nearly all financial institutions give their boards the right to fill vacancies in their number. The very general adherence to this principle seems to indicate its wisdom, for continuity in policy is essential in the management of financial affairs, and too radical changes are to be avoided. Moreover, the members of the board are, or ought to be, either those most heavily interested in the corporation, or their especially chosen representatives, and conse-

quently the best judges of the qualifications of their associates. The tendency of boards of directors to become self-perpetuating and autocratic bodies is held in check by the fact that the final control is always in the hands of a majority of the shareholders.

The most important duty of the board is to control the general policy of the company. How to meet competition, to secure new business, to hold on to that already in hand, when to branch out into new fields, to feel the pulse of the public, and to gauge the outlook for the future, these and a thousand other problems have to be met with sound judgment and a wide knowledge of affairs. In the selection of the executive officers, the directors exercise an equally important function. To the executive officers the director can lend the greatest assistance in securing new business. His commanding position in the commercial and financial world should give many opportunities for directing to his company business which, once secured, efficient officers should have but little difficulty in holding. The rapid growth of many of the more recently established trust companies is a direct outcome of the united personal efforts of the directors and officers, and shows what can be done even in the face of keen competition. If the director is to keep in close touch with the affairs of the company, he must be conscientious in his attendance on board and committee meetings, and, no matter what confidence he may feel in officers and fellow-directors, must take his share of the responsibility. The absentee director is likely to be more of a hindrance than a help on the rare occasions when he does put in an appearance. Where it is the practice to have audits and examinations of assets made by members of the board, it is the duty of every director to do his part, not only to obtain familiarity with the details of the business, but for the protection of all concerned. As a certain number of directors are usually required by law to attest the correctness of statements of condition, it is really essential for the director to have personal knowledge of the truth of these reports.

The direct returns from the position of director are few, as the post is an unsalaried one. The small gold pieces received in some companies as an honorarium for attending board meetings and periodical examinations of assets are usually the only direct payments, and these are given not so much in return for service rendered as to insure a quorum — an admission that human nature

in the person of the director is much the same as in the least of those who are dependent on him.

The indirect returns to the director of a trust company are considerable. The intimate relation which he bears to the business is often of great value to him, and the knowledge of people and affairs which he thus gains can legitimately aid in the management of his personal concerns. The danger is that, by the unscrupulous, such a position of honor, trust, and responsibility may easily be perverted to selfish ends. The director should never fail to realize that as the representative of the whole body of stockholders, his first duty is to protect their interests. If as an individual he transacts business with the company on whose board he sits, he must always remember that when acting in one capacity he is incompetent to advise in the other. No director should be allowed to do business with the company merely because he is a director, or for any other reason than that it is to the company's best interest to deal with him. He must be careful, too, not to abuse his authority by thoughtlessly encouraging subordinates to break rules for his convenience and so interfere with the discipline of the office.

Whether a single individual should occupy the position of director in more than one company doing the same business in the same city or town is often a serious question. Undoubtedly, the director of a trust company is of most value when he has numerous interests of other sorts. It is, however, difficult to see how he can be connected with competing organizations, without at times promoting the interests of one at the expense of the other.

CHAPTER III

OFFICERS

INTRODUCTION

The official staff of a trust company varies with its size and business. No matter how small the organization, there should never be less than two executive officers, performing the duties of president and of secretary and treasurer. If the business will not admit of paying salaries large enough to secure the services of additional officers, a member of the board of directors should serve as vice-president and take charge when the president is absent, and a clerk should act for the treasurer in similar cases. The executive positions and duties are often combined in various ways; vice-president and treasurer, treasurer and secretary, trust officer and secretary, are some of the more usual combinations. The arrangement depends, however, on the size of the company, the number of officials, and the individual abilities of each. What seems a logical and proper division of duties at one time, may after a change of officers fail to secure effective results, and require a rearrangement.

Each department should be in charge of an officer and when new lines of business are taken up new heads of departments must be appointed to direct them. No company should be under-officered. The present tendency to have an ample number of officers is particularly noticeable among the more recently organized and larger companies, as compared with the older ones. The business of a trust company is far more complex than that of a national bank, and consequently a larger proportion of officers is needed in order to provide for the innumerable and constantly varying details which require an officer's attention.

In addition to the president, one occasionally finds a chairman of the board of directors who presides over its deliberations but does

not perform any administrative functions. This expedient is sometimes resorted to in the case of the consolidation of two companies when it is desired to retain the services of the presidents of both. Curious relics of the past are also occasionally perpetuated, as in a New England trust company where the chief executive officer bears the title of "actuary," and the so-called "president" acts only as chairman of the board of directors.

In a large company there are frequently several vice-presidents and assistant officers — each one in charge of some part of the business. An arrangement of this sort not only tends to keep the company at all times adequately officered, and prevents the officers from being too much tied down to their desks, but also often makes it possible to retain the services of capable and efficient employees, who as assistant officers are content to stay on at a moderate salary when as mere clerks they would probably be dissatisfied and leave. A trifling advance in salary when combined with a title is always appreciated, and is a mark of confidence which generally results in more and better work. Whatever the titles or arrangement of duties, the company should be organized as a unit and not as a number of entirely separate and unrelated businesses. It is, of course, essential that the business of the trust department be kept apart from the affairs of the company itself; at the same time, uniform systems and methods should be employed in all departments, the carrying out of which is left to the officers in charge. The greatest coöperation and harmony between the various departments would probably be secured if their heads were considered a sort of cabinet, and if important matters were submitted to this body before final decision by the president. Were they to hold regular meetings to consider the details of the company's business and management, just as the president and finance committee of the board consider investments and general policy, each officer would become better versed in the affairs of the company as a whole, and correspondingly more efficient in the work of his own department.

When officers are engaged in outside business and do not devote their entire day to the company's affairs, it is well to have a distinct understanding on the subject, for even the best-intentioned officer may find it difficult so to arrange his work that neither his own affairs nor those of the company shall suffer. Except in

cases where the company cannot afford to pay for the entire time of an officer, or where it is thought wise to use the name of an influential man who acts as a figurehead or in an advisory capacity, it is best to secure the whole time and undivided services of all the officers.

This need not, however, cut off opportunities of development and usefulness through outside interests. One of the reasons often given for the unsatisfactory condition of municipal affairs in this country is the supine attitude and lack of civic pride of many corporation officers, who shun politics and do not dare to express their opinions or take a vigorous stand against political wrongdoing, for fear that such action may antagonize the political powers and result in hostile legislation or annoyance of an even more direct character. It is no more necessary for a trust company officer than for anybody else to rush precipitately into public controversies, yet a live interest in public affairs, a well-developed social as well as private conscience, with a realization of the duties and responsibilities of citizenship, are important characteristics of the highest and most truly successful type of corporation officer. Officers cannot take too much interest in public matters, provided they always bear in mind their duty to their employers and permit neither outside interests nor personal affairs to interfere with the company's business.

Confidence is, next to financial soundness, the foundation on which a trust company must build, and the organization is judged largely by the character of its directors and officers and the personnel of the office force. It is therefore necessary that the officers of a trust company should show, even by their smallest actions, that implicit confidence may be placed in them. They should never accept presents, commissions or rebates of any sort, direct or indirect, nor indulge in speculation even of the mildest kind, and such practices should be strictly forbidden. A trust company officer who takes commissions or dabbles in stocks is bound, in the end, to injure not only himself, but the company with which he is connected. Sufficient salary should be paid to enable each officer to live comfortably, so that he need have no excuse for resorting to these means of eking out an insufficient income. Clear insight and a robust standard of integrity are the only protection against the more insidious forms of "graft" which present themselves in the alluring guise of legitimate opportunities for private gain.

PRESIDENT

It is a trite saying that there is always room at the top; how much room is best realized by the directors of a large financial institution confronted with the difficult problem of choosing a chief executive officer.

The prominent banker of a generation ago was usually the man who, having made a success of his business, had amassed capital and then stepped from the borrowing to the lending class. His judgment, matured by years of contact with business problems, was generally to be relied on, and his knowledge of men and affairs was of no little worth in forming opinions as to financial values.

The present century is, however, one of specialization, and the choice of a progressive board of directors is now likely to fall on the man who has had a good technical training in banking, rather than on a prosperous merchant who has already done his best work and is not versed in the intricacies of finance.

The ideal chief executive officer should possess all the major virtues, and not too many of the minor vices. It is rare, however, that the "all round" man can be found, and if by any chance he is discovered it is still rarer that he can be secured; for there is to-day nothing which the capitalist needs more, and, having it, is more loath to part with, than the services of an executive officer of the best type.

The successful president must be a man with common sense and the power of judging character. He should be of good address, with pleasant manners, and if a ready wit happens to be one of his natural possessions it can be turned to good account. Executive ability, a level head, cool judgment, and firmness tempered by charity are all important qualifications of the head of any corporation. It is better for the president to be in advance of his time than ever so little behind it. To be truly successful, he must be a leader, not only in finance, but in the broader interests of the community.

As large powers vest in the person of the president, it behooves a board of directors to use the utmost diligence in their efforts to secure the right man, for it is far easier to elect a president than to part company with one. It is essential that the character, antecedents, and qualifications of a candidate should be thoroughly investigated, and

evidence secured even in regard to what seem petty details, which may give a clew to personal idiosyncrasies or important traits of character. Needless to say, the office should invariably seek the man, except in the rare cases where undoubted fitness or long service may justify a dignified application. As a general rule, the man who makes a hard fight to secure the presidency of a trust company and who feels it necessary to use political and social influence to forward his ambition, by these very acts proves that his character and the record he has made are not sufficient to warrant his selection. The best men must usually be offered the position and given sufficient inducements to insure their acceptance. The retired business man on the company's board who is willing to help his colleagues by assuming the chief executive position is rarely the best man for the place, for the qualifications of a good director are often very different from those of a successful president.

In the choice of a president, it is assumed that the board desires to secure the best available man, and that the prosperity of the corporation is the single end to be gained. When other motives influence a choice, it is evident that the directors themselves are not all that could be desired, and that the stockholders ought to make the annual election something more than a perfunctory occasion.

The desire to maintain continuity of policy, and fear that the selection of an outsider may lead to changes or unknown dangers, often induce the appointing body to seek first a candidate from among those already connected with the institution. When such a search reveals a fit man, tried and true, a well-deserved promotion solves all difficulties. When, however, those already in the employ of the institution have not the requisite qualifications, neither a misapplied civil service idea nor the fear of change should be allowed to interfere with the selection of the best available man — wherever he may be found.

It is wise first to cover the local field, as much trust company business is of a personal and confidential nature and the executive officer who is familiar with the character of his constituency is at some advantage over the man who is forced to pick up this knowledge after assuming office. If the stranger, however, brings with him the prestige of a reputation gained elsewhere, it will tide over many initial difficulties of his new position. Once in the presidential chair,

the executive officer should have the loyal and unqualified support of his board of directors, and should be allowed wide latitude of action.

The whole system of organization is based on the centralization of power in the hands of a single executive officer, in whose person, as representative of the stockholders and board of directors, authority finally rests, and who simply delegates to subordinate officers such of his powers as are necessary for the proper conduct of the details of the institution's management.

The president is the commanding general of the office force, from whom all orders emanate, these orders being carried out by passing them through the series of officers who form the chain necessary to reach the desired point. The strict observance of the custom of passing all executive orders through the heads of the various departments to the proper divisions and sections in turn, is necessary if the best discipline is to be maintained.

New business generally originates in the president's office and is then referred to the officer responsible for such work. If the president wishes to keep in touch with an important transaction, he does it, not by handling the details himself, but by close oversight of the proper department. Rigid adherence to this principle is necessary if confusion and costly errors are to be avoided. A general officer should never yield to the temptation of personally attending to the details of some important transaction when there is a department organized to care for just such business.

As head of the institution, the president, both in and out of his office, sets an example to his subordinates which is far stronger than any disciplinary measure, and the employee will respond more quickly to the spirit shown by his chief than to any number of arbitrary rules. While the president cannot, by virtue of his office, be expected to be as regular in his hours as is the teller or bookkeeper, he should nevertheless set a standard of punctuality, manners, neatness, and the thousand and one qualities which go toward the making of a successful business man.

The president is a directing officer and not a clerk, and he should therefore be given such competent assistance that his time need not be wasted in doing work which a subordinate could do just as well. The president's time is chiefly spent in consulting with

those connected with the institution, and in doing business with the outside public. He should arrange his duties so as to avoid conflict between the claims of the two. The practice of the United States government departments is to devote the first and the last hour of the day to business which requires consultation between the officers of the departments, while the rest of the day is given up to the public. Even in a trust company where the public cannot, of course, be kept out as it is from a government office, fewer business calls are made during the first and last hours of the day than at any other time.

The president after reaching his office first clears his desk of the morning mail, then receives the heads of the various departments, and takes up such matters of business within the office as require his attention. These disposed of, the public has its turn, with possible interruptions on the part of directors and employees. In a country where "all men are created equal," it is important that the highest officials of a trust company should be readily accessible to the public. Even the president of the company is for the time being the servant of the customer, and the popularity of an officer may very largely depend on the ease or difficulty with which he can be approached. He should, of course, be protected from the book agent and advertising shark, but the weeding-out process can be simply and effectively accomplished by a tactful assistant in the anteroom. The luncheon hour is a convenient time for the president to meet and consult with members of his board and important customers, especially if luncheon is served in the building, as is becoming more and more the custom among trust companies.

When the duties of the president call him out of his office, his absences should be regulated so as to interfere as little as possible with his work inside the building, and not only should his assistants keep in touch with his movements, but there should always, if possible, be some available officer who can act for him.

In addition to the president's general duties, that of making investments devolves upon him, with the assistance of the finance committee of the board. In the matter of appointments, he is likewise the arbiter. The officer in charge of the department of the company into which a new incumbent is to be put, should be consulted in order that a person may be secured best fitted to the special

duties to be performed. Every one should, however, know that while the recommendations of the various heads of departments in regard to appointments, dismissals, promotions, and changes of occupation have weight, the final decision rests with the executive.

VICE-PRESIDENT

The unadorned statement of the by-laws that the vice-president's duty is to assume the functions of the president in the absence or disability of the latter, leaves this individual in an even more difficult predicament than the Vice-President of the United States, who at least has the Senate over which to preside. Where the president is something more than a figurehead, it would hardly be worth while to pay a vice-president simply to stand ready to throw himself into the breach should occasion arise. Additional functions must be provided for him.

Many trust companies have several vice-presidents, each one of whom is usually in charge of some department. Where a large corporate trust business is transacted, the certification of bonds is a duty usually assigned to the vice-president. In smaller companies the position is often combined with that of the treasurer or some other officer. Occasionally — when the president is the nominal head — the vice-president virtually occupies the first position. Whatever the arrangement, it is essential to have a vice-president, so that the business of the company shall not be clogged by even the temporary absence of the executive. One of the most frequent arguments for the appointment of corporate executors and trustees is that they never die or change. Quite as important a recommendation should be the fact that during business hours there is always an officer at hand who has authority to transact any business that may arise. Delay in executing official documents or interviewing customers often causes both loss and annoyance. In general it is a sound principle that in every trust company there should be two individuals capable of filling each position, from the highest to the most humble.

The vice-president, to fill wisely a delicate and responsible post, must ever bear in mind that the authority vested in him is delegated, and that he must coöperate with, and look for guidance from, a superior

officer. The two chief executive officers should always be in close touch and see as much of each other as their respective duties will permit. They can supplement each other and so arrange their work as not to conflict or overlap.

In appointing a vice-president, whatever his routine duties, it must be remembered that at some time, for longer or shorter periods, he may be called on to act as president. His qualifications for filling that position — even temporarily — should be carefully weighed before he is given the responsibilities and the prerogatives of the second place.

TREASURER

The treasurer is at the head of the banking department. His position is analogous to that of the bank cashier.

The president and vice-president consider questions of policy, the larger problems of management, and the making of investments; the decision once made, the treasurer becomes responsible for the actual transactions, and for the details of all strictly banking business.

The treasurer passes on all new deposit accounts, signs all drafts for the disbursement of funds — whether charge slips for transfers within the office or checks which go outside. He is the custodian of the company's assets and is therefore responsible for the vaults, and for the care of the securities which they contain. It is usual for the tellers to be held directly responsible for their cash. The treasurer, however, generally has charge of the cash reserve not used in the current transactions of the company.

This officer is charged with the duty of making loans, subject to such rules as may be laid down for his guidance. He needs to have a general knowledge of securities and their values, for in considering an application for a loan, questions of rate, amount and character of collateral, and other terms must usually be decided on the spot. Nor does his responsibility end with the acceptance of the loan. The loan clerk is required to figure the margin and keep in touch with the market fluctuations; but the treasurer will not be doing his full duty if he does not himself watch the developments of the market from day to day, and keep a constant oversight of the loans to see that too much of any one security is not held, and that the loans are not weakened by the substitution of inferior collateral. In times of

panic a heavy responsibility may rest upon his shoulders from the danger of loss through sudden shrinkage in the value of collaterals. He should in times of quiet and prosperity get rid of all securities of questionable value, and not wait until the storm breaks which may make such a course impossible. If a loan is unsatisfactory it may be called or the deposit of additional collateral may be required instead. When funds are needed, it is his duty to call loans in order to replenish the company's reserve.

The treasurer is responsible for the systems employed in his department in the receipt, payment, and care of deposits, and in the handling of loans. To settle the technical questions which constantly arise, he requires a good knowledge of banking principles and usage. His close contact with the details of the business, and the number of customers whom he meets, make this officer of considerable assistance to his superiors when considering the effect of possible changes in policy or methods.

The treasurer also comes into close relations with the office force, and has it in his power to do much toward upholding a high standard of service. He usually pays the salaries, and not infrequently acts as purchasing officer, has charge of the company's building, attends to the advertising, the bonding of employees, and similar administrative duties. In fact, his office often seems a convenient place to which to refer all matters not belonging to any particular department.

In smaller trust companies, the positions of vice-president and treasurer, or secretary and treasurer, are frequently combined. In larger institutions, there are usually one or more assistant treasurers.

SECRETARY

The bank cashier acts as secretary at board meetings, and consequently an officer with the title of secretary does not appear in the plan of organization of either state or national banks.

Trust companies, occupying a broader field and doing more varied business than strictly banking corporations, find it necessary to have a larger corps of officers. The secretary — who is found in almost every corporate organization except the bank — is the logical addition to the executive force. He is not a mere amanuensis or

recording clerk, but an officer performing varied and important duties.

The by-laws of most corporations, whether mercantile or financial, provide that the duties of the secretary shall include keeping the minutes of the board and of its committees, the custody of the corporate seal, and the attestation of all documents to which the seal is affixed. Upon him as secretary of board and committee meetings the correspondence resulting from action taken by these bodies naturally devolves. The secretary sends out notices of stockholders', board, and committee meetings, prepares the order of business, — usually fixed by the by-laws, — and aids the presiding officer in the conduct of the meeting.

The general correspondence of the company is received by the secretary or by assistants detailed for this purpose under his direction. Where a general correspondence room is maintained, the secretary is the officer upon whom the oversight and direction of this department naturally fall.[1]

In a small trust company the title of secretary is often combined with that of treasurer or trust officer, as the duties belonging strictly to the secretary are not enough to fill the time of a high-salaried official. Whatever the combination of duties, it is well to have a secretary and assistant secretary, so that there may always be some one at hand who can attest the seal when attached to official documents.

Keeping the minutes may be an onerous task in large corporations, where many matters come before the board for consideration. The writing of minutes by hand, when the hand is that of a well-paid officer, is a waste of time and an unsatisfactory method of keeping important books of record. The secretary should make short notes at the meeting, and immediately after its adjournment, while his impressions are fresh, should dictate the minutes in full to a stenographer. They should be typewritten on loose sheets of a suitable size, ruled with a single vertical line to give a margin at the left-hand side. After examination, the minutes should be signed by the secretary, and placed in a file or binder. At the end of each year, or other regular period, the sheets should be removed from the file and permanently bound. They should be

[1] For description of correspondence room, see p. 249.

numbered consecutively, and a careful index should be prepared and bound with each volume.

Long and formal resolutions, such as those authorizing the sale of real estate, with lengthy descriptions of the properties conveyed, may be simply noted and a supplemental book kept, in which the resolutions are filed. This makes it easier to refer to the general minutes, as well as to find the special records thus grouped.

Copies of the by-laws and of resolutions conferring general powers on officers are frequently needed, and a supply of these should be printed and kept on hand, in such form that when certification is necessary the secretary may be able to add the seal and his attestation without delay.

MANAGER OF CORPORATE TRUST DEPARTMENT

(Trust Officer)

The executive head of the department responsible for corporate trust business is known by various titles, and is often one of the vice-presidents. Whether he occupies a more responsible post than the head of the individual trust department depends entirely on the relative importance of the departments and the amount of business each transacts. The two departments are in some instances combined under one head, and when the business is small two separate organizations would not be justified. In Massachusetts trust companies are found which, to avoid hampering restrictions, have never applied for the power to act as executor or trustee for individuals, and hence have no individual trust department, but devote all their energies to corporation work.

The corporate trust department is called upon to perform the duties of the trust company in a number of capacities. When the company is a trustee for bond issues the head of the corporate trust department has charge of the securities and records relating to the bonds received, issued, and cancelled. He conducts the correspondence and in the event of default he may have to take charge of foreclosure proceedings or other legal measures for the protection of the bondholders.

The manager of the corporate trust department has charge of the business of the trust company in its capacity of fiscal agent of corpo-

rations. This includes the payment of interest on registered and coupon bonds, of dividends on capital stock, and at times of the principal of bonds and other obligations. The collection and disbursement of funds often bring the trust company into close relation with a wide range of interests, and the success attending its work rests largely upon the tact, foresight, and energy displayed by the manager of this department.

The registration and transfer of the shares of stock of other corporations form an important part of a trust company's duties. This work must be handled expeditiously and important decisions must frequently be made by the manager of the corporate trust department. To discharge these duties properly he needs to be thoroughly familiar with the practices relating to the transfer of stock, and he should be acquainted with the laws and decisions of the courts upon the subject.

When the trust company is chosen as manager of an underwriting syndicate, when it is designated as depositary under plans of reorganization of a corporation, or when it becomes either assignee or receiver of an individual, firm, or corporation, the manager of the corporate trust department must assume responsibilities requiring a high order of ability coupled with fairness and patience in dealing with the complicated problems that are sure to arise.

MANAGER OF INDIVIDUAL TRUST DEPARTMENT

(Trust Officer)

When the company does a large individual trust business, the trust officer is the most sought-after man in the organization. Guide, philosopher, and friend, he touches in the most intimate way the lives and the fortunes of those whose affairs he may control. He sees the family in its joys, its sorrows, and its disagreements, and, like the doctor and the priest, his advice and help are sought in every dilemma. Small wonder that he must be possessed of infinite patience, of wisdom, of firmness tempered by charity; that he must learn how to say no without offending, how to make a refusal seem almost a favor.

Trust business is governed by law at every turn, so the trust officer must either be a lawyer himself or have some one to whom he

can readily apply for legal advice. Most trust officers are members of the bar, but there are notable exceptions. Long association with court practice and familiarity with the business may make a layman as successful a trust officer as the most accomplished lawyer. A general counsel who is easily accessible can supply the needed legal advice, and gradually impart a working knowledge of legal principles to the officer unlearned in the law. It is also the custom to employ as special counsel for each estate the lawyer who brings the business to the trust company, or who is chosen by the parties in interest, and he will usually prefer to be consulted before decisions of moment are made. If a lawyer is appointed as trust officer, he should be a man of high professional standing, for his decisions are liable to review by the courts, and may have far-reaching effects. A capable layman is far safer than a second-rate lawyer.

To be successful, the trust officer must have full authority over his department, and be assured of the cordial support of his superiors. This support is particularly necessary because in the interpretation of testamentary and other directions he has to act in an almost judicial capacity, and appeals may often be taken from the decisions he makes in carrying out the provisions of wills and deeds of trust, or the instructions of the courts. The president and directors fix the general terms on which trust business is to be taken, and the preliminary arrangements are often made by the president himself; but the account when accepted is entirely in the hands of the trust officer. Investments are also usually made by the president and directors, subject to legal restrictions. The trust officer, however, owing to his familiarity with the needs of each case, is best fitted to assign the investments to the individual accounts.

In smaller companies, the position of the trust officer is often combined with that of vice-president, secretary, or treasurer. As soon as the volume of business will warrant it, the trust officer should be relieved of all duties outside his department, and when necessary he should be given one or more assistants, who can take charge of the various details of the trust business and exercise his authority when absent. The trust officer should keep track of all new business and have his department so thoroughly organized that each transaction will naturally fall into its proper channel. In no part of a trust company's business are the details so many or so diverse,

and in none is it more necessary to keep the confidence and good-will of the customer by having them regularly, promptly, and carefully attended to. A successful trust officer has said that his most important function is to plan such accurate systems that when a piece of business leaves his desk the details are provided for automatically.

The personality of the trust officer is the chief factor in establishing and maintaining pleasant relations between the trustee and the *cestui que trust.* He should be readily accessible and always willing to listen to requests and complaints, and yet he should not allow his visitors to take too much of his time. He has to consider separately the varying problems of each estate; how to secure the largest income returns, when to buy and when to sell, how to reconcile diverse interests and conserve the rights of both life tenant and remainderman. When the opinion of counsel and of experts must be obtained before difficult problems can be settled, it falls to him to convince even the most impatient parties in interest, of the necessity for delay. From all his subordinates he should require the prompt despatch of business, with unfailing courtesy and consideration. Especially upon his assistants who may have to be sent into the homes of clients should he impress the necessity of gentlemanly dress and behavior. The very nature of the business is confidential, and he cannot lay too great stress on the duty of every employee to regard as private all information coming through trust company channels.

The trust officer, if he can demonstrate his ability to safeguard the interests of those with whom he has to deal, has rare opportunities to win their confidence and esteem, and through them to attract others to his company. He is also in a position to secure new business by maintaining cordial relations with the members of the bar and the judiciary.

CHAPTER IV

BANKING DEPARTMENT

ORGANIZATION

THE wide powers exercised by trust companies, and until recently their comparative freedom from restrictions in regard to keeping a fixed reserve to secure deposits, have brought about a remarkable expansion in the strictly banking functions of these institutions. The trust companies have entered into active competition with the banks in securing deposit accounts, and by paying interest on daily balances they have been successful in attracting an immense amount of business. If credit is not a requirement of the depositor, and the slight delay caused by having collections pass through two hands is not of vital importance, the service rendered is as good as that of the national or state bank. In some states where broad powers are granted under a general banking law—such as that of Illinois—one finds the same companies doing a trust business and carrying on commercial banking in its various branches as well.

The large sums on deposit in trust companies have given these institutions a commanding position in commercial development, and in the promotion of all sorts of enterprises. For many years the importance of the field occupied by the trust companies was obscured by reason of their non-affiliation with the clearing houses. Until within a short time the trust companies carried deposit accounts with state or national banks in much the same manner as individuals or commercial corporations, so that the banking operations of the trust companies were not fully reflected in the weekly bank statement. In most of the larger cities the leading trust companies are now members of the clearing house or clear through a member. The bank statement in these cities therefore discloses more nearly the actual conditions.

Banking functions occupy the principal attention of the large New York trust companies. The floating of bond issues and financing of corporations of all sorts have opened up a profitable use for their deposits and enabled these companies to offer great inducements to the depositor in the way of interest. Even in other parts of this country, where the care of individual estates forms a lucrative part of the trust companies' business, their banking functions are so important and varied that they deserve careful consideration.

The treasurer is the executive officer of the banking department, and is directly responsible for its management.[1] The clerical work of the department may be divided into —

I. The receipt of deposits	Receiving teller
II. The disbursement of deposits	Paying teller
III. The care of deposits	Individual depositors' bookkeeper
IV. The use of deposits	Loans

RECEIVING TELLER

The receiving teller is responsible for the receipt of all items, whether cash, notes, checks, or other forms of indebtedness taken for deposit. He is responsible for the work and conduct of his assistants.

He should be a man of undoubted honesty, good address, obliging yet firm. He should always make the depositor — whether capitalist or office boy — feel that he is welcome, and by courtesy and kindness do all in his power to keep the good-will of his customers. The paying and receiving tellers can by their manners do more to attract or drive away business than any other individuals in the employ of the department. A conscientious treasurer in his private office is well-nigh helpless to counteract a bad impression made on customers by his representatives behind the grills. It therefore behooves the appointing officer to exercise the greatest care in the selection of the tellers, and to impress on them the importance of their position, and the direct bearing of their actions on the success of the entire organization.

As the duties of the receiving teller include the most careful scrutiny of every item which passes through his hands, and as there is considerable mental strain in performing, often under pressure, such

[1] For details of treasurer's functions and duties, see p. 36.

responsible work, it is essential that the machinery of this division should be as simple as is consistent with safety, and that all unnecessary clerical work should be avoided.

The depositor is required to fill out a deposit slip, giving the title of the account, the date and particulars of the deposit. It is the duty of the receiving teller to verify the facts and figures on the slip before entering the amount of the deposit in the pass book. He should always be careful to see that the title of the account is accurately and clearly written, for all subsequent entries are made from this original record, and an incorrect or illegible slip may cause a series of errors.

Banks and trust companies always provide their customers with deposit slips, partly for the convenience of the depositor, but even more to facilitate the clerical work of the company. The slip, made out by the depositor or his representative, serves as the customer's description of the deposit and may be of value in case of dispute. It is therefore always well to use the depositor's memorandum, even though written on a rough bit of paper, rather than to destroy this piece of evidence and replace it by one of the usual slips filled out by an employee of the company. For convenience in verifying deposits, the customer is required to specify the total amount of notes and of specie, and to list separately the various other items.

The description showing the place of payment of the separate checks is useful in enabling the teller to judge how soon a depositor who carries a small balance can be permitted to draw against recently made deposits. It also helps to identify the item in case a check is lost. If a depositor carries a large balance, it is enough to list the amount of each item without any further description, for the indorsement of a check would show to what account it had been credited in case it should be returned unpaid. Some institutions itemize on their deposit slips each denomination of note and specie. Except in very large deposits, this retards rather than facilitates the work of the teller. A special form of deposit slip is often used for the deposit of coupons as cash items. Coupons have to be examined with especial care and the separate slip saves the tellers the annoyance of having them indiscriminately listed with cash and checks. As a matter of convenience, coupons are often received for deposit at the collection window.

After verifying the separate items of a deposit, the teller enters the total in the depositor's pass book. The pass book should be of a size convenient to carry in the pocket—$6\frac{3}{4}'' \times 4\frac{1}{4}''$ outside measurements has been found a satisfactory shape. On the outside cover, made of leatherette, cloth, or tough manila, should be a space for the depositor's name. The title of the company should then follow. If the name of the depositor is at the top, the books can be stacked like a card index and most easily handled.

Inside the cover it is usual to find one or more printed pages, reciting the terms on which deposits are taken. The front pages and back cover of the pass book are also convenient spaces for advertising the company. The blank pages of the pass book should contain a date column, a column for description of the deposit, and a cash column. Both right and left hand pages should be ruled alike, faint cross lines about $\frac{1}{3}''$ apart serving to guide the teller in entering deposits. Now that it has become the custom to list paid checks on an adding machine, both right and left pages are used for entering deposits. When a settlement is made, the balance at last settlement and the deposits are totalled, and from this amount the total of checks shown by the adding machine list is deducted. Subsequent deposits are entered below the resulting balance. From twenty-five to fifty double pages are ample for the ordinary pass book. Experience has shown that larger books are unwieldy and are likely to wear out before they are filled.

When deposits are made without the pass book, the teller should stamp the slip "No Book," and later, when the book is presented for settlement, or for the addition of the omitted deposit, the slip should be initialled by the teller after the entry is made.

A more modern practice adopted by many progressive banks and trust companies is that of rendering a monthly statement to each depositor showing the month's transactions and the opening and closing balances of the account. In such cases pass book settlements are unnecessary and the pass book is used only for the purpose of recording deposits. For deposits received by mail an acknowledgment is sent upon receipt of each deposit.

Where two or more depositors' ledgers are kept, the teller should separate the slips belonging to the different ledgers. Several times during the day his files of deposit slips should be emptied, each lot

RECEIVING TELLER'S DAILY SETTLEMENT

RECEIPTS									
Individual Depositors, -									
A - F									
G - N									
O - Z									
Certificates of Deposit									
Certified Checks									
Demand Loans									
Time Loans									
Commercial Paper									
Stocks									
Bonds									
Mortgages									
Accrued Interest Receivable									
Safe Deposit Rentals									
Total									
DISBURSEMENTS									
Payments to Paying Teller,									
Notes									
Specie									
Checks									
Total									

listed on an adding machine, and the slips then turned over to the bookkeepers for posting. The teller's totals of the deposit slips settle at the end of the day with the totals of the bookkeepers' scratchers.

All checks on other institutions are listed and then either sent to bank for deposit or in due course are settled through the clearing house. It is a common practice to have all of the company's deposits in other banks made by the paying teller and to have the receiving teller's total included in the paying teller's settlement. Checks on the company itself are passed over to the paying teller, and, if good, the receiving teller is given a due bill covering them.

Where the trust company is a member of the local clearing house the checks or other items payable by other members are sorted according to the paying banks and trust companies, placed in envelopes showing the name or clearing house number of the paying bank and the name or number of the sending bank together with the aggregate amount of the items in the envelope. The method of settlement through the clearing house has been described fully in many works upon banking and it is therefore unnecessary to repeat here what has been well said elsewhere.

The receiving teller's work is settled at the end of the day in the receiving teller's settlement book. One page of this book is devoted to each day's work. A list of the more active general ledger accounts is printed, as a matter of convenience, while a few blank spaces following this list leave room for such accounts as appear but seldom. Following the list of receipts, divided according to the general ledger accounts, appear the payments to paying teller, divided into notes, specie, and checks. The totals of both lists must settle, just as the total of the deposits received must balance with the depositors' scratchers kept by the bookkeepers. It is customary for the receiving teller to give his figures to the paying teller at the end of the day, but not to turn over the specie and notes until the following morning, when the paying teller can prove the cash at his leisure.

Items which cannot be taken as cash, such as notes, drafts, and obligations of every sort not due when deposited or of uncertain payment, are taken for collection. There is often a separate teller who has charge of this class of deposits and who sometimes also receives coupons and other items not strictly cash.

All items received for collection are entered "short" in the deposi-

tor's pass book. That is, a description of the deposit, including the amount if it is known, is written in the description column of the book only, the amount not being "extended" or placed in the cash column until the item has been actually paid and the proceeds have been placed to the depositor's credit on the ledger.

If a trust company does a commercial banking business it should furnish each depositor who has a large number of items for collection with a separate pass book in which the teller in charge of the collection window can list all such items when deposited. As each item is paid it is crossed off and entered in the depositor's regular pass book.

A trust company either makes collections directly through its correspondents in various parts of the country, or through the clearing house, or deposits its collection items in a local bank. In the latter case, as each item is paid it is crossed out in the company's collection pass book, the proceeds are placed to the credit of the trust company's deposit account, and the corresponding entry is made in the regular pass book. The trust company has to keep a record of collections in which each item is entered as received from the depositor, and a card index on which the items are arranged according to the date when due or payable. The record of collections can be either a loose leaf or bound book. Each line can be numbered so that the items may be treated on the maturity index by their accession number, thus often avoiding the repetition of a long description. One line should usually be sufficient for each item. The record should contain the following data: date received, date due, name of depositor, nature of obligation, description, number of items, amount of each, deductions, total amount, where payable, date deposited, how collected, date paid, remarks. As the items are paid, they are checked off so that the outstanding items can be seen at a glance.

The maturity index should be kept on cards. It is simply a cross index of the open items in the collection record, arranged as to dates. The cards should be ruled so as to show the item number, description, due date, and amount. Guide cards divide the index into the days of the current month, the following eleven months, and subsequent years. Overdue items should be kept in front. The index should be examined each morning and the current guide cards moved so that it will always show the exact condition of the items out for collection.

As soon as an item is paid, it is noted in the collection record, a deposit slip is made out, the amount is passed to the credit of the proper depositor, and the maturity index card is destroyed.

It is a growing practice for depositors to leave for deposit coupons which mature at various future dates. These are entered short in the depositor's book and are treated exactly like other collection items, except that at maturity they are usually put through as cash. In other words, they are entered in the collection record as paid on the day on which they are deposited in bank by the trust company, and the depositor is given credit at that time. As the larger part of the work can be done in advance and the items can be examined at leisure, this practice is encouraged for the convenience of all concerned. It is usual for the trust companies to deposit coupons in bank one or two days before they are due, to get these troublesome items out of the way before the first of the month. Bonds which have been called for payment or which have matured are treated in the same way as coupons. The teller in charge of the coupon and collection window should keep himself informed as to where coupons and bonds are payable, should have lists of called bonds easily accessible, and full information as to defaults, reorganizations, etc. In this way he can render much appreciated service to depositors and prevent the return of many items deposited through carelessness or ignorance. Dividend orders and orders for the payment of registered interest should also be carefully examined and when there is any possibility of non-payment should have "No Protest" slips attached.

Great care should be exercised in receiving notes and other negotiable instruments, and informalities should be detected and rectified at the time of deposit. Future trouble with depositors can also be avoided by asking for explicit instructions as to whether the obligation is to be protested if not paid.

Some depositors make a practice of drawing on their customers whose accounts are overdue. Such items are often troublesome and are frequently returned unpaid. They should under no circumstances be accepted as cash. Indeed, business of this sort can usually be refused, unless the company is doing a commercial banking business, in which case the depositor should pay for the service rendered.

"This book must accompany each deposit," was a familiar legend in the pass books of a few years ago, but the rule is now "more honored in the breach than in the observance." The practice of mailing dividend and interest checks, and the competition for deposits, have led many companies to offer special facilities for doing a mail business, and attractive circulars are issued giving instructions as to the necessary procedure in "Banking by Mail." Deposit slips and addressed envelopes are furnished the depositors, and the receipt of each deposit is promptly acknowledged. The account is settled monthly or when the interest is allowed and a statement of the account is sent with the cancelled checks. Some companies take the precaution of having all mail deposits received and acknowledged in the treasurer's office before the items are passed over to the receiving teller. In other companies these deposits are addressed to the receiving teller and are acknowledged by him.

THE PAYING TELLER

What has been said in regard to the responsibilities of the receiving teller applies with even more force to the man at the other window. The duties of both tellers have much in common, but there is one great difference; it is often possible for the receiving teller to locate and rectify an error made in the receiving of a deposit, while the paying teller has no way of correcting a mistake after the cash is paid out.

The position is at best a difficult one, and it is a matter of economy, if nothing more, to make such arrangements that the paying teller can keep his mind on his immediate duties and be free from any other responsibilities or distractions. His patience is often and severely taxed by unpleasant customers, and this fact should be borne in mind by the superior officer when listening to complaints and appeals from the teller's decisions.

"You will have to be identified, Madam, before I can pay this check, for I do not know you," has been known to provoke the retort, "Well, I'm sure I don't know you, and what's more I don't want to!"

A paying teller's life is not all difficulty, however. The position is one of responsibility, to be sure; but the hours are short, there are

many periods of enforced leisure, and there are more pleasant customers than unreasonable ones. Each day's work stands for itself, and with the cash once settled there is no more thought or care till the morrow's business commences.

It is important that the paying teller should be able to handle notes and coin rapidly and accurately, that he should be able to detect counterfeits, and to make rapid mental calculations. A good memory for both faces and names is of inestimable service to him.

The paying teller should know that he has the unqualified support of his superior officers, and, on the other hand, he should be made to realize the necessity of considerate and gentlemanly treatment of all customers.

The treasurer should see that the teller is provided with an ample supply of the various denominations of coins and notes. Assistance should also be given him in putting up small denominations of coin. There are mechanical devices for counting and wrapping coin, which save labor and prevent the possibility of miscounts. The mechanical trays for use in making combinations of coin provide a rapid and accurate means of counting out small lots of specie.

New money, both coin and notes, is now very largely used, particularly in trust companies, some institutions even advertising that they pay out no old currency. New notes are more difficult for the teller to handle than old ones, but they should be provided for all customers who desire them, and a little foresight will usually make it possible to keep an adequate supply on hand. If they cannot be obtained from local institutions, the Treasury Department at Washington can generally fill the order, charging only the cost of expressage. There is always a great demand for new money just before Christmas, and an extra supply should be ready in time.

The paying teller, by the exercise of a little tact and patience, can gradually educate the depositor to help rather than retard his work. Thus, employers can usually be prevailed on to send memoranda of their pay-rolls in advance, so that the money can be put up before or after hours — for nothing is more maddening to a line of customers than to be kept waiting while a long and difficult order is being filled. Many banks and trust companies now provide printed slips to be used in specifying how pay-rolls shall be put up. Both to save time and to help in tracing differences the teller should en-

courage the depositor to list on a slip or on the back of his check the denominations desired.

The teller has yet to be found who does not occasionally settle "short," or, less frequently, "over." Differences should, however, occur but seldom if the teller exercises due care and is provided with the necessary safeguards to locate responsibility. Such seemingly slight details as a wrong way of counting notes, or a lack of system in handling the individual transactions, may result in constant errors. It is a safe rule to count the money twice before paying it out. When the day's work does not settle, the settlement should never be forced, but every effort should be made to locate the difference, no matter how small, as it may be the result of two larger errors which almost balance each other.

Different institutions have varying practices as to the disposition of "shortages" and "overs." The custom of permitting the teller to make up a shortage is a vicious one — for it at once takes him into partnership, as it were, and naturally results in his keeping any "overs" to help reimburse himself for the hard-earned money he has had to pay out. The knowledge that he may be personally liable for his errors also has a tendency to make him nervous and to result in further mistakes. In some institutions a definite sum is set aside each year to cover shortages. Probably the most satisfactory method is not to appropriate any definite sum, but to have every error, whether shortage or over, entered in a general ledger account, "Errors in Cash." Even when the company assumes liability for all errors, the officers should impress on the tellers the necessity of accuracy and the bearing which it may have on the question of promotion or even upon the retention of their positions. The knowledge that his errors are recorded and reported is in itself a sufficient penalty for a conscientious and careful teller, who would often much rather make up a difference than have it become known. In all cases the charge or credit should be initialled by the proper officer and a note of the difference should appear in the settlement book — even if it amounts to no more than a cent — for at a later date it may serve to explain some mysterious tangle. It is often wise to carry a difference for at least two days before charging it up. If not found within this time, the mistake is not likely to be discovered.

The work of the paying teller's department comprises the pay-

ment of checks with cash, the settlement for checks paid either through the clearing house or to bank runners, according to the local custom, and, where the receiving teller settles through the paying teller, the deposit of funds in bank. When there is more than one paying teller, each should have his own cash and make his own settlement, the chief teller making the general settlement for the entire department. The settlements "between tellers" should be detailed, so as to facilitate the location of errors. In some companies each teller pays checks drawn on accounts in certain ledgers. More often, the tellers pay items indiscriminately. The former system makes each teller responsible for a certain number of accounts with which he can be more familiar than where he has to remember a greater number of signatures. The latter method saves time, however, and hence is more satisfactory from the depositors' standpoint, and certainly makes it easier to deal with large numbers of customers. Bank exchanges are usually received at a special window by an assistant teller, in order to facilitate the handling of the quantities of checks which are presented in this way.

In paying checks over the counter, great care must be exercised in examining both the indorsements, and the signatures, and the teller must be satisfied as to the person presenting the check. It is a common practice, for the protection of the depositor as well as of the bank, to refuse payment of large checks drawn to bearer when presented by strangers. When bearer checks for any large amount are cashed, the payee should be required to indorse the check, and it may sometimes be wise also to insist on identification.[1]

The indorsements of checks paid through the clearing house or directly to another bank are guaranteed by the institution receiving such payment, a stamped indorsement generally being used, with some such wording as, —

"Pay any bank, trust company, or banker; all prior indorsements guaranteed."

All qualified indorsements must be absolutely guaranteed by the presenting bank.

After payment of the checks, they are placed on a file which makes a small cut and are then listed on an adding machine or in a scratcher, and are passed to the bookkeeper to be sorted and posted. They

[1] See *Banking Law Journal*, Vol. XX, p. 771, "Indorsement of checks paid over the counter."

PAYING TELLER'S DAILY SETTLEMENT

RECEIPTS			
Balance at Opening			
From Receiving Teller			
From Savings Department			
DISBURSEMENTS			
Individual Depositors,-			
A - F			
G - N			
O - Z			
Certificates of Deposit			
Certified Checks			
Demand Loans			
Time Loans			
Commercial Paper			
Stocks			
Bonds			
Mortgages			
Accrued Interest Receivable			
Expenses Payable			
Accrued Interest Payable			
Balance			
Notes - 1st Teller			
2nd "			
Specie - 1st Teller			
2nd "			
Checks - 1st Teller			
2nd "			
National Bank			
National Bank			
National Bank			
& Co. Bankers			
Balance at Closing			

are not cut "Paid" before the day's work is completed, as overdrafts may not be detected until the bookkeeper posts the checks.

Bank runners presenting checks are usually paid by checks on the institutions in which deposit accounts of the company are kept. The banks in which trust companies deposit generally allow the latter interest and collect checks and all other items for them. The trust companies, being among the largest and most satisfactory customers of the banks, receive liberal treatment, notwithstanding the fact that the banks often consider them dangerous rivals. Trust companies' bank accounts are usually settled weekly and interest is added each month.

The paying teller's daily settlement book shows the gross amount on hand at opening, to which is added the total of the day's receipts from the receiving teller. From this sum the day's payments are subtracted, the resulting balance equalling the amount of cash on hand and in bank, which is shown in detail.

The payments are subdivided according to the general ledger accounts charged, and in the case of individual depositors are further itemized to show the amount charged against each depositors' ledger. The titles of the more active general ledger accounts are printed, and space is left in which to write those which occur less frequently.

The balance on hand at the close of business is separated into notes and specie, showing, when there is more than one teller, the amount in the possession of each, and also the balance in every bank in which the company carries a deposit. Where the company is a member of the clearing house, or clears through another bank, the teller's settlement shows an item for checks to be cleared the following morning.

Depositors frequently wish to have their checks certified or to get in place of them bank drafts on a local or distant institution. In the latter case, if the depositor's check is good, the trust company issues its own check in exchange for the depositor's, and in the former, the following form is stamped across the face of the check and properly filled out: —

Good for $

when properly indorsed.

Treasurer.

The amount of the check is also indicated by figures with a safety device or punch. At the same time, a charge is made out on the following form, which takes the place of the certified check until its final payment: —

Date_____

The Paying Teller will please charge _____ $_____

being _____

_____

Treasurer.

The amount of the certified check is at once charged against the depositor's account and is placed to the credit of a general ledger account called "Certified Checks." When the check is finally paid, it is placed with the depositor's other cancelled checks, the treasurer's charge slip is withdrawn, and the general ledger account is charged with the amount of the check.

The forms of charge slip used against general ledger and individual depositors' accounts are often printed in different colors or on different sorts of paper, in order to distinguish them easily.

When a depositor's check is lost, the drawer should promptly report this fact and sign a "stop payment" order, giving the date, amount, and number of the check, and the names of both the drawer and payee. The notice is entered in a record of stop payment orders, and is also placed on a list which the teller keeps before him. When the missing check is found the fact should be reported promptly so that the item can be crossed off the list, which under the best of conditions is too long for the comfort of the teller.

CLEARING TRUST COMPANY CHECKS

The clearing of checks brings up at once the moot subject of the relation between trust companies and banks.

In some places their attitude is distinctly hostile, the banks complaining that business is taken from them by their unrestricted competitors, while the trust companies feel that although they are among the banks' best customers, they are often discriminated against, and are made to pay too dearly for their privileges.

In other localities, notably in the West, the banks and trust companies have been quicker to realize that there is plenty of room for both classes of institution, and have worked in harmony to their mutual advantage.

Particularly in the matter of clearing, any device for expediting and simplifying the payment of checks is of benefit to the banks and trust companies, and to the customers of both.

In New York, Philadelphia, Chicago, and a number of other cities, trust companies may be members of the local clearing houses where they are subject to the same regulations, and have the same privileges as the other bank members.

The New York Clearing House permits clearing for non-members under terms in effect since June 19, 1911, as follows: —

"1. No member of the association shall make exchanges through the clearing house for any bank or other institution whose exchanges have not heretofore been so made through a member, unless the same shall have been actually doing business for at least one year, nor until the making of such exchanges by a member shall have been approved by the clearing house committee after an examination of such bank or institution by the clearing house committee, or by some other committee of the association duly appointed for that purpose.

"2. The consent of the clearing house committee shall also be necessary to the transfer of the making of exchanges for a non-member from one member to another member.

"3. Every non-member bank or institution now or hereafter sending its exchanges through a member of the association shall pay to the association the amount of $1000 annually in advance.

"4. Every non-member bank or institution now or hereafter sending its exchanges through a member of the association shall submit, whenever required by the clearing house committee, to the same examinations as are now required of members of the association.

"5. Whenever any member of the association shall send through the clearing house the exchanges of any bank or other institution not members, such sending shall, *ipso facto*, and without other notice, constitute said member the agent for said bank or other institution at the clearing house; and said member shall be liable in the premises the same as for its own transactions, and its liability in all such cases shall continue until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of any such agency.

"6. Every non-member bank or institution now or hereafter sending its exchanges through a member of the association shall furnish to the Manager of the clearing house, at the close of business on each Friday, a weekly statement of its condition in such form as shall be prescribed from time to time by the clearing house committee.

"7. Every institution redeeming through a member of this association shall

keep a cash and deposit reserve equal to the minimum percentage required of members of the association.

"The clearing house committee shall have power to enforce this rule."

In Chicago, the number of non-members whose checks pass through the clearing house far exceeds the number of members. Section 22 of the Articles of Association of the Chicago Clearing House is as follows: —

"Any member of this Association may clear for any bank or bankers in the city of Chicago or vicinity — not members of this Association — after obtaining the consent of the Clearing House Committee, and being obligated to pay this Association annually,

For each of such banks or banking firms having a capital of

$25,000 to $50,000 the sum of	$150.00
Over $50,000 to $200,000	$250.00
Over $200,000 to $400,000	$350.00
Over $400,000 to $600,000	$450.00
Over $600,000 to $1,000,000	$600.00
Over $1,000,000	$750.00

Such bankers or banking firms shall consent under proper authority to the same examinations, and render the same statements of their condition as are required of the members of this Association . . . and shall be subject to all such rules and regulations in matters of common interest arising from or affecting relations with banks in other localities, and the fostering of sound and conservative methods of banking, as have been or may from time to time be adopted by this Association, and shall sign an agreement so to do in such form as the Clearing House Committee may require. The Clearing House Committee shall satisfy itself that all non-members for whom members may clear are *bona fide* engaged in the business of banking, and have a capital employed in such business of not less than $25,000. Individuals, firms or corporations engaged in other lines of business receiving deposits from their employees or others which they use in their regular business shall not be construed as coming within the meaning of banks, bankers, or banking firms. This amendment to go into effect on January 22, 1907."

Where trust companies cannot be members of the clearing house, they are usually permitted, as in Boston and Pittsburg, to clear through an agent bank under definite rules laid down by the clearing house association.

Where no clearing house privileges are accorded the trust companies, or in case the trust companies have not availed themselves of clearing house privileges, the exchanges are collected by the messengers of the banks, and the trust companies deposit in the banks all checks, whether payable at local trust companies and

banks or elsewhere. This means a delay in the final payment of checks drawn on non-members, with the added risk of non-payment which is thereby inevitably incurred. It also involves much clerical work for all concerned, without any corresponding advantages. The future will undoubtedly see the general introduction of a uniform system of clearing on equal terms for all companies doing a legitimate banking business. To accomplish this the banks must recognize the claims of the newer organizations, and the trust companies must agree to proper restriction — now often lacking — and bear a just proportion of the expenses of the clearing house.

Whether the trust companies clear as members of the local clearing house association or as non-members, matters little so long as the main object is secured. The value of the clearing house and the possibilities of the expansion of the system are as yet but little understood. The time will come, however, when more general clearing facilities will be recognized as essential to the prosperity not only of the banks and trust companies, but of the whole business community. The spirit of antagonism that has been prevalent must give way to a due appreciation of the rights and responsibilities of both classes of institutions.

Where a trust company clears through an agent bank, the procedure is usually as follows: if required by the rules of the local clearing house, the trust company first agrees to abide by the conditions therein provided, as to reserves, statements, etc.; the bank is then given authority to clear for the trust company and sends notice to all the members of the clearing house association that items on the trust company will be received by it through the regular exchanges. All such items of the trust company are put up in separate sealed envelopes, the total of which envelopes is listed as one item on the regular exchange envelope of the agent bank. The agent bank has the same right to return the trust company's items as it has to return its own items. When the exchanges are taken from the clearing house to the agent bank, the trust company's envelopes are immediately sorted and their totals listed. They are then sent to the trust company, which gives a receipt for the total amount shown. All the envelopes are then opened, amounts proved, items examined, etc., and checks posted by the bookkeepers. Such items as are in any way irregular, the trust company returns to the agent bank in time

for return to the sending bank through the next exchange. At the same time, the trust company sends a check to the agent bank covering the total amount of the exchange less the items returned, and takes up the receipt given earlier in the day, or else takes one from the agent bank for the purpose of keeping a record of the transaction. When there is a second clearing each day, the same procedure is followed after the later exchange, except that the trust company pays the agent bank in full on delivery of the exchange and is then responsible for the return of all irregular items to the sending banks by runner before the close of business of the same day.

Deposits with the various banks in which the trust company carries accounts are made in the ordinary way. The trust company's accounts become much less active than before, because a single check covers each clearing. Clearing through the regular exchanges, moreover, relieves the banks of collecting by messenger from the various trust companies.

In the trust company, the receipt of the morning's exchange makes it possible for the bookkeepers to post the previous day's items early in the day. The work of the paying teller's department is also less than where the bank runners are straggling in during the day and each has to be paid separately.

CARE OF DEPOSITS

Simplicity and accuracy are the prime requisites of any system for the care of deposits. Where each operation has to be repeated so often, a cumbersome method, though it add only a few seconds each time, will in the end mean hours of unnecessary labor.

The principle is well illustrated by the Eleventh Census which was taken on the family-schedule basis, thus giving a single individual, if unmarried, a separate page instead of putting on each sheet as many names as it would carry. The result is that the Eleventh Census is still unbound and would require some thirty thousand volumes, while the Twelfth Census is contained in six thousand volumes.

New accounts are opened by the treasurer, or a representative of that officer detailed for the purpose, who often presides over a special window marked "New Accounts." When opening an account it is customary to require a satisfactory introduction of the depositor

and to secure such other facts as may be needed. Too great care cannot be exercised in deciding whether an account is to be accepted or declined. Even with the assistance of definite rules governing the required balance, rate of interest, etc., much has to be left to the officer's tact and discretion, and each case must be considered on its own merits. A little more power of observation would have spared embarrassment to the officer who asked a handsome depositor, "What is your Christian name, Madam?" and received the prompt and dignified reply, "My *given* name is Leah." A glance at the prospective depositor's left hand will usually give the clew as to whether the next question should be "Miss?" or "Mrs.?" The reply, however, may bring surprises, as in the case of a stout, middle-aged, and much-bejewelled lady who gushingly answered, "A bride of yesterday."

One often hears the statement that a depositor has a right to open an account in any way he chooses, but it should be borne in mind that the proper authority must be shown when the funds are, for example, those of an executor or trustee, or belong to an incorporated organization. Some trust companies even decline to open an account in the name of "John Doe, Trustee," and require the trust to be designated. The ground for such action is that complications and possible liability may be avoided by having the ownership of the fund on deposit clearly designated. A safe rule to follow in opening accounts for decedents' estates or trusts is that the title should be that of the estate, corporation, or trust, but never the name of the executor, officer, or trustee, as these individuals may change from time to time during the continuance of the account.

In opening an account, a specimen of the signature or signatures is taken on a card, on the back of which the depositor's address and any other information are recorded. A card about $3'' \times 5''$ is a satisfactory size. At the same time, it is well to copy the title of the account in an accession book to be passed to the various clerks affected. Each clerk should initial the record to show that he has made the appropriate entries.

A similar book should be used when an account is closed, in order to be certain that this fact is reported to all concerned. The signature index is kept by the paying teller. A copy of this index, giving the titles of the open accounts and the addresses of the depositors, should also be kept by the receiving teller or bookkeepers.

DEPOSIT ACCOUNTS.

Date		Name	

OPENED

Address	Authority Filed	Ledger	Taken by	Signature Card			Opened		Examined by Controller
				Received	Copy filed in Rec Tellers Index	Filed in Pay. Tellers Index.	Ledger	Interest Sheet	

When an account is closed, the signature card is stamped "Closed" and placed in a special index for closed accounts. When signatures are changed or officers are superseded, the old signature cards are stamped "New Card" and filed with the closed accounts. The tellers' index should contain none but open accounts, as the tellers are concerned with current business only. A separate alphabetical index of closed accounts is of great value, as information is constantly being asked for in regard to the business of past years. The dates when the account was opened and closed being given on the card, the account is easily located in the proper ledger.

When an account is opened, a pass book is inscribed with the title of the account, a deposit slip is made out, and the depositor is given any needed information as to deposits and withdrawals and the rules of the company. This done, he is ready to proceed to the receiving teller's window, where the deposit is received and examined and entered in the pass book. The receiving teller passes the deposit slip to the individual depositors' bookkeeper, in order that proper credit may be given the depositor.

The bookkeepers, handling hundreds of items each day, must necessarily be quick and accurate. Neatness, legible handwriting, and facility in mental arithmetic are also important qualifications. It should be an absolute rule that no bookkeeper be permitted to have any account in his ledger in which he has an interest, either direct or indirect.

The system of records must be simple and accurate, so arranged that the balance of each account is readily ascertainable, and that trial balances can easily be taken off.

In former years, an individual depositors' ledger was usually ruled in the ordinary ledger form, the checks entered in the left-hand or debit column, and the deposits or credits in the right-hand column. The account was balanced by adding to the checks the difference between the two sides, or the amount to the depositor's credit. The account was then ruled up, showing balancing totals on each side. In case of an overdrawn or debit balance, the amount of the shortage would be added to the deposit column. The pass book was a miniature copy of the ledger, the deposits being entered on the left-hand page and the checks listed in detail on the right-hand page. Owing to the large increase in accounts and the more general use of checks,

this method has been superseded, and a gradual evolution in the direction of accuracy and speed has taken place.

The so-called "Boston System," by which the balance of each account is carried forward each day and a daily settlement of the ledger is made, is in very general use in both national and state banks. Trust companies carry less active accounts — except when they do general commercial banking — and consequently do not need to keep their individual depositors' ledgers in daily balance with the general ledger. Adaptations or modifications of the "Boston System," providing for weekly, bi-weekly, or monthly trial balances, are more nearly suited to their needs. So-called "Duplicate Systems," by which the account is kept by two entirely distinct sets of bookkeepers, are also finding favor in commercial banks. When such a system is used, it is customary to enter deposits in a pass book, as a memorandum, but not to settle the book. Instead, one copy of the account is sent the depositor at fixed intervals, with the cancelled checks.

The methods adapted to commercial banks are fully described in all books on general banking. The present work is rather concerned with an adequate system for the care of less active trust company deposits. Without attempting to consider the many systems in use, one will be described in detail.

Ledgers are now found in bound books, on loose leaves in some form of binder, or on cards. Bankers of conservative tendencies still favor the bound book, and some well-known bank examiners even hold that the loose-leaf ledger is dangerous in the extreme. Notwithstanding such opinions, this type of ledger is coming into more general use each year, and there are strong arguments in its favor. Many companies compromise by having all books of original entry bound, and all supplementary books of the loose-leaf type.

The bookkeeper's equipment consists of the ledger, the scratcher, the interest slip, the sorting tray, and blotters. A bookkeeper and assistant can care for from one thousand to two thousand accounts, the number depending on the activity both of the bookkeepers and the accounts. The work is facilitated by dividing the accounts between two smaller ledgers rather than by using a single large volume.

The most popular form of depositors' ledger at the present time is probably that showing the dates at the outer margins and having three money columns in the centre headed "Checks," "Balance," and "De-

DEPOSIT ACCOUNTS

Date		Name	

CLOSED

Why Closed	Account Closed		Pass Book Settled	Card Removed from Rec. Teller's Index	Signature Removed from Paying Teller's Index	Signature filed in Closed Index	Examined by Controller
	Ledger	Interest Sheet					

posits" respectively. In many cases another column is placed to the left of the "Checks" column and used for entering the amount of each check where a number are posted at the same time. Where this is done the total of the group is extended into the "Checks" column and one change made therefor in the balance.

The "three column" ledger can be had at any good stationer's and a further description is unnecessary. It is preferable to use it in a loose-leaf binder of the best type, and care should be taken to avoid a leaf of too large a size.

Another style of ledger, using a sheet 14″ × 17″ and in principle an adaptation of the Boston ledger, so widely used in national banks, may be described as follows: —

At the outer edge of the left-hand page a space is provided for the names of depositors; next is a column for the balance of each account at date of opening, followed by a small space in which to note the date of each entry. This, in turn, is followed by three money columns, the first for checks, the third for deposits, and the second or centre column for the daily balances. These columns appropriately printed carry the work of the first month. By a repetition of these columns and the use of two short leaves, the ledger is constructed to last for a year. To facilitate the finding of accounts, a space is provided on the extreme right in which the names may again be entered and, as a further aid, the index letters of the accounts on each page are placed in the small rectangle printed at the upper corners. The faint lines are numbered at each margin, and every fifth line is a trifle heavier than the others, thus aiding the eye in following an account across the page.

The accounts should be arranged alphabetically, and to each should be allotted a space sufficient to hold the entries likely to occur in any one month. A number of accounts can thus be entered on each page, the exact number varying with their activity. Additional spaces should be left between each letter change (Aa, Ab, Ac, etc.), so that new accounts which are received from time to time may be entered in approximately alphabetical order.

In opening the ledger, which should be done at a slack time during the latter part of the month, the balance of each account is entered in the first balance column. This column is then added, and the totals of all the pages in the ledger should equal the balance shown in the general ledger. Postings are made as in an ordinary ledger,

LEFT HAND PAGE OF INDIVIDUAL DEPOSITORS' LEDGER

.....12.....

INDIVIDUAL DEPOSITORS

Ledger No.	NAMES	Balance Dec 1904	DECEMBER 1904-- JANUARY 1905 DAY	Checks	Balance	Deposits	Balance Jan...1905	JANUARY--FEBRUARY 1905 DAY	Checks	Balance	Deposits
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
70											
71											
72											
73											
74											
75											
76											
77											
78											
79											
80											

and the new balance made by each entry is placed in the balance column, found between the "checks" and "deposits" columns under each month.

It is intended that trial balances shall thereafter be taken monthly, at such time during the month as is most convenient. When this is to be done, the last balances are thrown into the next dated "balance" column, and the footings made, summarized, and compared with the general ledger, as at time of opening.

Some of the advantages of this ledger are: —

1. The ease with which it can be kept in balance. The monthly trial balance can be taken off more quickly than from any other form of ledger, as the ledger itself forms a trial balance.

2. Convenience in posting. Each page contains a number of accounts, thus requiring less turning of leaves to find accounts.

3. Errors can be readily located. Each page must balance, the total of opening balances and deposits being equal to the total of checks and closing balances.

4. Facility in making an almost absolutely certain audit. By simply ascertaining the total of the "checks" and "deposits" columns in each depositors' ledger for any given month, an auditor can prove the results by comparing them with the total postings in the general ledger during the corresponding period, and with the totals shown by the tellers' daily settlements. In this way a three-cornered test of the depositors' accounts can be secured that will show errors, omissions, or irregular transfers of items from one account to another.

It is in conformity with the best practice to make postings to ledger accounts directly from the checks and deposit slips. Only by using original papers wherever possible can the highest degree of accuracy be attained.

At intervals during the day, arranged according to the amount of work, the tellers pass the paid checks and deposit slips to the assistant bookkeepers. Each one arranges his items alphabetically, both deposit slips and checks together. The head bookkeepers then place them in their sorting trays, light wooden boxes $10'' \times 13\frac{1}{2}''$ with sides $1''$ high and a division across the centre. The unposted items are kept in one division, face up, and the posted items face down in the other. The box also prevents the checks and deposit slips from being scattered. From the checks and deposit slips

the bookkeeper posts to the proper account, entering all the checks or slips of a given depositor as a lump sum. He at the same time makes the necessary change in the balance column — when there are both credits and debits the net change is made. A thin blotter is then inserted at the page where the entry is made. This is done to facilitate finding the page, and also to prevent any item being overlooked when the balances are verified at the close of business or on the following morning.

The bookkeeper, after posting the items, turns them over to his assistant who enters them in his scratcher. The scratcher is a book $9'' \times 17\frac{1}{2}''$, ruled with a description column and three cash columns, the first to be used, when necessary, for listing separate checks and the other two for deposits and for checks respectively. Both pages are ruled alike. These books should be of about two hundred pages each, and as they are filled rapidly, should be cheaply made. The assistant enters the items alphabetically to correspond with their order in the ledger, and leaves between them enough space to insert at the proper point other items which may come in later in the day. In spacing the scratcher, which should be done at the beginning of the day, it is well to be a little too liberal rather than the reverse. It is only necessary to write a depositor's name once, as all items are posted opposite the name and on the lines immediately below it.

The bookkeeper, after posting all the items of the day, has completed his work, unless it is deemed wise to have the interest slips changed and the ledger balances verified the same day. This can usually be left till the next morning, to occupy the time before the day's postings start. The assistant, however, is required to add the lists of the day's checks and deposits, which he has entered in the scratcher, and these amounts must settle with the tellers' figures. The assistant bookkeepers also give the general ledger bookkeeper a slip showing the totals of the day's work, which are verified by comparison with the items reported in the tellers' settlements. After the day's work has settled, the paying teller's assistant cuts the checks, usually with a cancelling machine which punches the word "Paid" and also the date.

The method of computing interest on depositors' accounts is closely allied to the ledger, the plan recommended being that of allowing interest on the daily balances and of using an interest slip

THE MODERN TRUST COMPANY.
DAILY BALANCE AND INTEREST SHEET.

	NOVEMBER	DECEMBER	JANUARY		FEBRUARY	MARCH	APRIL	
1				1				1
2				2				2
3				3				3
13				13				13
14				14				14
15				15				15
29				29				29
30				30				30
31				31				31
Total								

ACCOUNT

_____

MONTHLY INTEREST SUMMARY

November			
December			
January			
February			
March			
April			
Total			

arranged to show each depositor's daily balance for a period of six months.

The interest slip is a sheet $9\frac{1}{2}'' \times 10\frac{1}{2}''$, with six vertical cash columns, each with thirty-one lines, and headed with the names of six months, to correspond with the semi-annual periods at which interest is allowed. Each deposit account has a separate slip. At the bottom of the slip is a space for the depositor's name and a space in which the interest allowed for each month is entered and the six items are totalled at the end of the period. A new set of slips is made out every six months.

The slips are arranged alphabetically to correspond with the order of the accounts in the ledger. They can be punched along the top margin and kept in any binder which permits of the sheets being readily inserted or removed.

The bookkeepers begin the morning's work by changing the previous day's balances on the interest slips, while the assistants are engaged in sorting and filing the checks and deposit slips.

Each bookkeeper takes the scratcher of a ledger other than his own and from it makes the necessary changes on the interest slips in the last balance of each account affected. The new balance is entered on the line for the day of the month on which the change occurs. A blotter is inserted at each slip on which the balance has been changed.

After all the changes are completed, the interest slips are returned to the bookkeeper to whose ledger they belong. The new balances are read off by the assistant bookkeeper, and if the postings in the ledger and the changes on the slips have been correctly made, the balances in both must agree. When the items differ, they are examined and the necessary corrections made. By this system each balance is separately struck by two persons, and only in case of the same error being made by both can a mistake pass unnoticed.

Interest on depositors' accounts is calculated for each month, and the result is entered in a monthly interest summary at the bottom of the slip. The method used is to allow one day's interest on the total of daily balances for the month. If the balance in the account does not change during the month, it is multiplied by the number of days it remains unchanged, and the result, added to the balance on the first day, gives the total sum on which interest is to be allowed. The amount of interest is found by reference to a table described

below. When the balance changes each day in the month, the balances are added, and interest is computed on the result. When the balance remains unchanged for any given time, it is multiplied by the number of days it remains stationary, and the result is pencilled on the interest slip just above the succeeding change in the balance. This procedure is repeated as often as required, and the total figures of both the changing balances and the multiplications covering the days when the account was unchanged, give the total to be used as the basis of the interest calculation.

The interest table gives one day's interest at the rate allowed, on a basis of three hundred and sixty-five days to the year. The table appearing on page 72 shows interest at two per cent.

When varying higher rates are occasionally allowed, the interest is first computed at two per cent. For three per cent the result is increased one-half; for four per cent it is doubled. It is customary to credit interest to the depositor's account at a date somewhat later than the period actually covered. This is done in order to give time to make the interest calculations. In large companies interest is usually credited in the various ledgers at different dates. The general practice is to allow interest semi-annually.

The pass-book settlement system is gradually being superseded by the monthly statement plan under which a statement showing the total daily deposits and checks paid with the balances on the first and last days of the month is sent with the cancelled checks by mail to the depositor. This statement is written up from the original deposit slips and paid checks by separate clerks and, before mailing, the balances shown on the statements are compared with those of the corresponding ledger accounts. Sometimes a form of receipt acknowledging the correctness of the account rendered is enclosed together with a request that the depositor sign and return the acknowledgment. Whether the receipt is used or not, this plan is a much more effective safeguard against error and fraud than the pass-book settlement can be. Furthermore, as a convenience to depositors it is a promoter of goodwill in favor of the banks and trust companies adopting it.

Where pass books are used they should be settled frequently; if the accounts are active, at least once a month; if inactive, after each interest period. Verification of the accounts by the depositors is one of the best safeguards against error. When the pass book is

TWO PER CENT INTEREST ON DAILY BALANCES

One Day Interest at 2% per annum on basis of 365 days to a year

1 to 91	.00	31,000	1.70	66,000	3.62	100,000	5.48
92 to 273	.01	32,000	1.75	67,000	3.67	200,000	10.96
274 to 456	.02	33,000	1.81	68,000	3.73	300,000	16.44
457 to 638	.03	34,000	1.86	69,000	3.78	400,000	21.92
639 to 821	.04	35,000	1.92	70,000	3.84	500,000	27.40
822 to 1,000	.05	36,000	1.97	71,000	3.89	600,000	32.88
2,000	.11	37,000	2.03	72,000	3.95	700,000	38.36
3,000	.16	38,000	2.08	73,000	4.00	800,000	43.84
4,000	.22	39,000	2.14	74,000	4.05	900,000	49.32
5,000	.27	40,000	2.19	75,000	4.11	1,000,000	54.79
6,000	.33	41,000	2.25	76,000	4.16	2,000,000	109.59
7,000	.38	42,000	2.30	77,000	4.22	3,000,000	164.38
8,000	.44	43,000	2.36	78,000	4.27	4,000,000	219.18
9,000	.49	44,000	2.41	79,000	4.33	5,000,000	273.97
10,000	.55	45,000	2.47	80,000	4.38	6,000,000	328.77
11,000	.60	46,000	2.52	81,000	4.44	7,000,000	383.56
12,000	.66	47,000	2.58	82,000	4.49	8,000,000	438.36
13,000	.71	48,000	2.63	83,000	4.55	9,000,000	493.15
14,000	.77	49,000	2.68	84,000	4.60	10,000,000	547.95
15,000	.82	50,000	2.74	85,000	4.66	20,000,000	1,095.89
16,000	.88	51,000	2.79	86,000	4.71	30,000,000	1,643.84
17,000	.93	52,000	2.85	87,000	4.77	40,000,000	2,191.78
18,000	.99	53,000	2.90	88,000	4.82	50,000,000	2,739.73
19,000	1.04	54,000	2.96	89,000	4.88	60,000,000	3,287.67
20,000	1.10	55,000	3.01	90,000	4.93	70,000,000	3,835.62
21,000	1.15	56,000	3.07	91,000	4.99	80,000,000	4,383.56
22,000	1.21	57,000	3.12	92,000	5.04	90,000,000	4,931.51
23,000	1.26	58,000	3.18	93,000	5.10	100,000,000	5,479.45
24,000	1.32	59,000	3.23	94,000	5.15		
25,000	1.37	60,000	3.29	95,000	5.21		
26,000	1.42	61,000	3.34	96,000	5.26		
27,000	1.48	62,000	3.40	97,000	5.32		
28,000	1.53	63,000	3.45	98,000	5.37		
29,000	1.59	64,000	3.51	99,000	5.42		
30,000	1.64	65,000	3.56	100,000	5.48		

settled, the balance shown should be compared with the ledger balance, and both should be initialled by the controller or some one outside the bookkeeping department.

Perhaps at no point does a trust company run greater risk of loss by fraud than through its accounts with depositors. As a rule no acknowledgment is required from the depositor of the receipt of cancelled checks or of the correctness of the balance as shown in the settled pass book or statement rendered. When a trust company without question hands out a depositor's cancelled checks to any one who may call for them, it can hardly claim that due diligence has been exercised should the depositor suffer a loss. A rule requiring the delivery of settled pass books and cancelled checks to the depositor or his duly authorized representative only, should be strictly enforced. In addition, receipts should be taken in a form that will relieve the company from liability for errors not reported by the depositor within a given time.[1]

Cancelled checks are filed alphabetically and are returned to the depositor with the monthly statement or each time the pass book is settled, only the total of the paid checks being entered, while the separate items are listed on an adding machine slip which is returned with them.

The deposit slips are generally filed alphabetically and for given periods. This method is on the whole more satisfactory than filing each day's slips together, as is sometimes done. It is more often necessary to refer to all the slips of a given account than to a day's work.

Special conditions often require modifications of a general system, and in caring for special sorts of accounts it is sometimes necessary to provide additional machinery. Thus, inactive accounts may be kept in a supplementary ledger, the total only being carried as a single item in the main ledger. The object of this is to facilitate the taking off of trial balances. When a company is the depository of court funds, these accounts are sometimes carried in a special ledger. Such exceptions to a general rule or system should, however, be as few as possible.

When an overdraft is not discovered till the check has reached

[1] See "Cancelled Bank Checks," by Charles W. Reihl. *The Bankers' Magazine*, Vol. LXIX, p. 920.

the bookkeeper, he at once — before posting — reports it to the paying teller. If the item is to be returned unpaid, the cut in the check is guaranteed by the teller or proper officer, and it is sent back to the bank which presented it. If the check is paid, the overdraft balance is posted in red in the ledger, and the depositor is notified. It is customary to have a printed form of overdraft notice, often in such type and color as to attract attention and warn the depositor of the seriousness of the offence. It is wise to have all overdrafts posted in a conspicuous place in the bookkeeping or tellers' room, to prevent their being overlooked or forgotten.

No ledger entry should be permitted without the proper authority. This authority should be vested in some officer, but not in either the tellers or bookkeepers. This rule should also apply to so-called "star entries" or correcting entries, which are starred on both sides of the account in the ledger to indicate that the item is not to be shown in the pass-book settlement. Star entries are often used when an item taken as cash has been returned unpaid and charged against the depositor's account, but is afterward paid. In this case the original entries in the pass book and ledger stand, while the later ones charging the account, and again crediting the item, do not appear in the pass book or monthly statement. Deposit and charge slips used for these purposes are often printed with a large red star to indicate their nature.

It is wise to carry in stock an assortment of check books varying in size from fifty to five hundred checks each. Those of fifty checks each should be one to a page, attractively bound and of pocket size. The larger books should have two or three checks to the page. By having large quantities of checks printed at a time, the cost can be kept down and they can be bound as needed. Safety paper, while more costly, affords a measure of protection and should be used.

It is good policy to be liberal in the matter of printing the depositor's name on his checks, and in having them numbered. The expense is slight, and the favor conferred is generally appreciated.

When the depositor insists on having a special form of check, he should be required to pay for it, unless the size of the account justifies the expenditure. Included among the standard checks should be a two or three signature form, for use in cases where more than one signature is required.

It is a growing custom among business houses to carry columns in their cash books for bank deposits and checks, thus dispensing with the use of the check-book stub. Expense can be saved by providing checks either loose or in pads for such depositors. Other business firms use their own forms of voucher or voucher check in the payment of their accounts.

RESERVES

"I was one of those who had the fallacious notion that ten or twenty per cent cash in bank was just as good as in your vaults. I have had practical experience that in one hour — yes, in half an hour — disillusioned me of that notion. In half an hour there were 500 people at the doors of the institution that I have the honor to represent, demanding their money, and in another hour there were 5000. And that reserve which we have all been shooting at, which was a thousand miles away, was mighty poor satisfaction to the fellow who had his money in our institution." [1] Plain words, these, and fearless, to be spoken by a successful trust company president in a gathering of trust company representatives. And the fact that the panic was successfully averted does not lessen the force of his statement.

A trust company which does not receive deposits, but confines itself to corporate and individual trust business, has small need of a cash reserve. Almost all trust companies, however, receive deposits payable on demand, and do more or less general banking, and the question of reserves is as vital to them as to the banks.

In order of availability in time of need, the reserves of a trust company may consist of cash on hand, cash on deposit elsewhere, demand loans, and investment securities.

The great majority of everyday transactions are in credits, not money. So long as public confidence remains, the cash itself is not thought of — this confidence lost, a panic results, and nothing but the actual cash will suffice.

The danger of a trust company's depending entirely on its balances carried elsewhere is that panics are apt to occur in times of money stringency, when the banks themselves may find it difficult to meet

[1] Transactions Trust Company Section, American Bankers' Association, 1904.

sudden calls for large amounts. "The experience of 1893 sufficiently proved the system of redepositing bank reserves in other banks, subject to demand, to be, as Professor Amasa Walker described it many years ago, the most explosive element in American banking." [1] Some financial institutions carry deposit accounts in other cities as an offset to local conditions. Another expedient is to open a special gold account with a national bank, the deposit being returnable on demand and in kind. A small return is received on the amount of the deposit, and the gold may be considered as part of the reserve of both bank and trust company. This plan, too, has its weakness in time of panic. Nothing, after all, gives such a sense of security as knowing that an adequate cash reserve is in the company's own vault, available for any emergency which may arise.

If a cash reserve is a necessity for institutions in the national banking system, — and this fact is universally admitted, — there seems to be every reason why the trust companies should be required to carry fixed reserves in their own vaults, not so large as the national banks, because their accounts are far less active, but commensurate with safety and sound banking principles. There can probably be no uniform standard for the whole country, but the states in which the trust companies have reached the highest development are taking independent action toward this end. The present trend of legislation is to require a minimum reserve, and such laws should in the end benefit the trust companies and make for financial stability.

Where trust companies have been admitted to membership in clearing house associations definite reserve requirements must be observed. The conservative attitude of the clearing house associations in requiring ample reserves has deterred many trust companies from applying for admission. Each year, however, sees more trust companies joining these associations, to the manifest advantage of all concerned.

[1] Alexander D. Noyes, *Political Science Quarterly*, Vol. XVI, pp. 248–261.

CHAPTER V

BANKING DEPARTMENT (*Continued*)

LOANS AND THEIR RECORDS

THE profitable employment of deposits and other idle funds is an important phase of the trust company's business. If interest is allowed on deposits, it is particularly necessary that the company should be receiving an adequate return. As deposits can be withdrawn at will, investments which have a long period to run can be used only to a limited extent. The larger proportion of such funds must be in short-term investments, either bonds nearing maturity or, as is more often the case, loans secured by collateral. The president and board of directors usually make general rules as to the class of obligation which is taken. It is, of course, not possible for these officers to pass on each individual transaction. Subject to their rulings, the treasurer is responsible for the making of loans. In large companies even this officer may have to delegate his authority. In special cases, where good loans of a type not usually accepted are offered, he often finds it wise to secure the approval of his superiors before making a final decision.

The loan clerk is intrusted with the details involved in the making and payment of loans, changes in collaterals, and the care of the securities themselves. The position is an exceedingly responsible one, and demands speed, accuracy, and judgment, as well as familiarity with the fluctuations of the market.

It is customary to make loans either "payable on demand" or for a period of from four to six months, although occasionally the time is extended to a year or more. It is the part of wisdom to make the period moderately short, as large withdrawals of deposits may at any time necessitate the calling in of loans. Sometimes the company itself must become a borrower in order to meet large payments when money is scarce and a sudden contraction of its loans might have disastrous results. The use of clearing house certificates has even been found necessary in times of severe financial stringency.

In New York a demand loan is understood to mean just what the term expresses, — an obligation payable without notice, according to the will of either lender or borrower, which not only can but quite probably will be called, and when this happens payment must be instantly made. In other parts of the country, the right to call demand loans is less frequently exercised. Indeed, certain classes of borrowers seem to consider that a demand loan gives them the privilege of payment at will, but denies the corresponding right to the lender. Where this is the case, a higher rate should always be charged than for a strictly call loan, as the obligation is really a time contract for an indeterminate period.

When loans are to be called, the borrower should be given as long notice as possible; for when funds are scarce, even the strongest house may find that it takes time to get the required sum. Judgment should be used in deciding which loans to call, and the amount needed should be divided *pro rata* among a number of borrowers rather than obtained by calling in the entire loans of a few.

The practice of discounting paper varies not only among different trust companies but in various sections of the country. Where trust companies act under a general banking law giving wide powers and enabling them to transact a commercial banking business, discounting of unsecured paper is frequent. In other states it is not permitted, although practically the same result is often obtained through the purchase from a third party of notes which have already been discounted. This difference is recognized by the laws of certain states. In a legitimate trust business great care must be taken to avoid unnecessary risks, and it is a safe rule not to discount paper beyond a very limited extent, and then only when the maker is undoubtedly good for many times the value of his obligation. If funds can be otherwise employed, the discounting of unsecured paper should be avoided, both on account of the risks involved and because this class of business more properly belongs to the banks, which are better fitted to care for it.

In loaning on collateral, the two important considerations are the marketability of the collateral and the name of the maker of the note. Loans should never be made to irresponsible people or to strangers. The danger of loss from loaning on forged or stolen securities is practically eliminated when the borrower's name as well

as his collateral is of value. On the other hand, the borrower should remember that when he borrows and the note includes a clause permitting rehypothecation, as it usually does, he surrenders his securities to the lender, who may dispose of them without the knowledge of the trusting client. It is therefore as much to the advantage of the borrower to deal with a thoroughly responsible lender as it is to the trust company to have only reputable names on its loan ledger. The most desirable borrowers are usually bankers, brokers, and those engaged in railroad, commercial, or other legitimate enterprises. The speculator should be handled with care, and his line of loans should never be allowed to exceed an amount for which he is undoubtedly good. In times of inflation, particularly, future bad losses can very easily be contracted by loaning too largely to individuals who have not sufficient capital to finance the operations for which they have become responsible.

Loans to officers or directors are to be avoided, and when made should be of moderate amounts and so amply protected that there can be no criticism from any source. Some of the worst failures of financial institutions have been caused by loaning, directly or indirectly, to those connected with the company. The laws of some states require all such loans to be reported to the State Banking Department, and specify an amount which shall not be exceeded. The law usually provides that such loans must not be greater than a given percentage of the capital stock.

In the selection of collateral, care should be taken to see that it either has intrinsic value or else that it can be readily sold. For collateral purposes it is not necessary to know so precisely the intrinsic value of the security as when purchasing outright for permanent investment. Marketability is the chief factor, as in case of default the collateral would be sold at once. A security that has a broad market is the best type of collateral. Thus thousands of shares of a good railroad stock can generally be sold without materially affecting the price, while the forced sale of issues which are little known may cause the price to break many points in transactions involving but a small number of shares.

It is a great help in making loans to have fixed rules as to the character of the collateral, and the amount of a given security which the company is willing to carry at any one time. Speculative securi-

ties can be taken with safety only when the margin is sufficient to admit of a sudden great fall in price. Securities of this sort should be marked at a low figure, and too large an amount of any one issue should not be accepted. There may even be danger in loaning too great an amount on inactive stocks which have undoubted value but a very limited market. In case of default of a demand loan so secured, the holder, in order to prevent loss, may be forced to buy in the collateral and to hold it for an indefinite period as an investment. In the same way, loans with mortgages on real estate as collateral security must be classed among the investments not readily convertible into cash in time of panic or sudden need.

In this country, railroad corporations doing an interstate business are required by law to make fuller reports than are corporations doing an industrial or manufacturing business. The earnings of a railroad, too, are not likely to fluctuate as violently as those of an industrial concern. Hence railroad securities form one of the most desirable classes of collateral. The securities of recently formed corporations should be loaned on to a very limited extent until the business is firmly established and has given undoubted proof of its profitable nature. Unfortunately, the declaration of dividends does not always mean that they have actually been earned. A certain conservative trust company that declined to loan on any but dividend-paying stocks, not only limited itself very greatly in the choice of collateral, but had adopted a poor test of value, as the bursting of more than one iridescent bubble has proved. Except when the security is of undoubted value, mixed collaterals should be preferred to large amounts of a single kind.

The loaning officer should be in close touch with market values, and have every facility for securing prompt and accurate information. A stock ticker should be within easy reach, and be supplemented by "inside" information, for stock quotations by themselves may prove anything but safe guides. The operations of a bull or bear pool may give the market a fictitious appearance, and a "wash sale" may fix the quotations in order to regulate loaning values, when to find a real purchaser the limit would have to be dropped many points.

In times of panic and violent fluctuations in price, the situation should be closely followed and additional collateral be called for as necessary. If the borrower is financially sound, his margin can

be allowed to drop considerably without fear of loss. With small borrowers and those who have exhausted their supply of available collateral, prompt and decisive measures must be adopted. To take the first loss is often in the end best for all concerned. Delay in selling out a weak loan through consideration for the borrower may be misplaced kindness. Sentiment is out of place in a falling market.

The amount of margin which is required varies with the sort of collateral. Thus, it is perfectly safe to loan very nearly the full market value of government bonds, and of most state and municipal securities. First mortgage railroad bonds can also be taken at a higher valuation than stock and other securities readily marketable, perhaps, but of less certain value. If the collateral is composed entirely of speculative stocks, a sudden break in the market may in a few hours — and before there is an opportunity to sell — turn a comfortable margin into an actual loss. In figuring margins it is important to bear in mind that in times of contraction in values, when securities are selling at a low level, a margin may be safe which in times of inflation and prosperity, when high records are being made, would be entirely insufficient to assure safety. In the former case, prices will probably stay within a moderately narrow range, while in the latter a sudden large shrinkage may occur.

In New York two tests are applied to a collateral loan, the first requiring that the value of the securities must have a margin equal to 20 per cent above the amount of the loan, and the second, that the loan must have 10 points margin, that is, that the amount loaned must be $10 per share less than the market price of the stock. This is reckoned by dividing the number of shares of stock (or if bonds, $10,000 are equivalent to 100 shares of stock) into the margin. For example, if there were 2000 shares of mixed stocks in a loan of $100,000, divide this number of shares into $20,000 (the 20 per cent margin), and the result shows an average margin of 10 points on each share held. If the 10-point rule is strictly adhered to, it has the effect of discriminating against low-priced, non-dividend-paying stocks, while the 20 per cent clause requires an ample margin on high-priced stocks. There are a few institutions in New York which require nearly 15 points with the 20 per cent margin, and some which do not adhere strictly to the 10-point requirement. Outside of New

York, the 10-point margin test is not often applied, the usual requirement being simply 20 per cent margin on good mixed collaterals.

In loaning it is usual to have a form of note which gives the lender every possible advantage over the borrower, and leaves no loophole by which the unscrupulous may attempt to avoid payment. The form of note here given embodies the provisions which, with varied wording, are found in the notes used by trust companies. The note should always be carefully filled in so that there may be no question at a later date as to any of the figures or descriptions which appear on the obligation. The loan clerk, before the money is paid out, makes a careful examination of the note, the collaterals, and the powers of attorney accompanying securities not payable to bearer. With stock exchange collaterals it is essential that the securities and powers of attorney should be in such shape as to constitute a "good delivery," so that in case of necessity they can be readily sold. A state bank examiner in visiting a newly organized trust company was astonished to find that there was not a single power of attorney with any of the loans. On questioning the treasurer he found that this officer fondly imagined that the note gave all the required powers, and had not at all considered the possible need of making a transfer in case of sale. After the situation had been explained, the treasurer offered to have his counsel, who, it seems, had approved his methods of loaning, prepare "some sort of a paper" to accompany the loans. He was not a little surprised to hear that such a paper formed an important part of the equipment of every bank and broker's office, and that he could obtain from his stationer an irrevocable power of attorney probably quite as effective as any document his counsel could devise.

The bookkeeping methods of the loan department should be as simple as possible. The following system furnishes an easy and accurate method and involves no unnecessary labor.

The machinery of the loan department consists of the loan ledgers, a collateral record, and a collateral index. The ledgers and collateral records should be of the loose-leaf type. Many companies combine the loan ledger and collateral record. It seems better, however, especially in the larger companies, to separate them, as the recording of loans and interest and of collateral changes are two entirely distinct operations.

A bound accession book is a valuable aid and should also be used.

NOTE

$\$$_____ _____ 190

_____have this day borrowed and received from

THE MODERN TRUST COMPANY

_____ DOLLARS,

which_____ promise to repay at its office, in gold, with interest thereon at_____per cent per annum on_____; having deposited as collateral security for the payment of this liability, and also as collateral for the payment of any other liability or liabilities to the holder hereof, due, or to become due, or which may be hereafter contracted, the following property, viz.:

_____

_____

_____

_____

_____

with full power and authority to the holder in case of default in payment of said liabilities, or any of them, to sell, assign and deliver the whole or any part of the above securities or any substitutes therefor, or additions thereto, at any Broker's Board or at public or private sale, at the option of such holder at any time or times thereafter without advertisement or notice to the undersigned, and with the right on the part of the holder hereof to become the purchaser thereof at such sale or sales absolutely freed and discharged from any equity of redemption and of all trusts and claims whatsoever, and after deducting all legal and other costs and expenses for collection, sale and delivery, to apply the residue of the proceeds of such sale or sales so made to pay any, either or all of such liabilities as said holder hereof shall deem proper, returning the overplus to the undersigned; and any deficiency resulting from the sale of said securities_____hereby promise to pay forthwith after such sale, together with interest thereon.

The holder hereof shall have the right, from time to time, under the conditions hereafter stated, to demand additional collateral security for the payment hereof, and if said demand is not complied with according to its terms, this obligation shall forthwith become due.

The holder hereof shall also have the right to receive from the maker hereof other securities in exchange for those above mentioned; and shall likewise have full power and authority to repledge the foregoing securities, or any others that may be received under the terms hereof.

It is expressly agreed that additions to, reductions of, or substitutes for, all or any of the collateral securities above named and payments on account of said loan or increase of the same, or other loans made partially or wholly upon the said collateral may from time to time be made with consent of the holder hereof, without affecting or impairing in any manner the validity of this contract, all such securities added or substituted being held with the same effect as if they had been herein originally pledged. _____also agree that so often as the market price of these or subsequently deposited securities shall, before payment hereof, fall to a price insufficient to cover the obligations of the undersigned to the holder hereof together with_____per cent margin added thereto,_____will on demand within two hours thereafter deposit with the holder additional security to be approved by said holder, sufficient to cover said amount and margin; and that in default thereof this obligation shall become instantly due and payable as though it had actually matured and all the foregoing rights to sell and transfer collaterals shall at once be exercisable at_____risk in case of any deficiency in realizing proceeds.

_____

This book contains columns for the date, name of the borrower, kind of loan, rate of interest, description of collateral delivered or amount of cash paid out, followed by similar columns covering the description of collateral or cash received. Then comes a series of narrow vertical columns in which the loan clerk places his initials as he makes the proper entries in the various books.

In the accession book each new loan is recorded, with each item of collateral and its cash value separately listed. Every payment and all changes in collateral are similarly recorded. From this record the history of each loan can be traced.

The demand loan ledger sheets are headed with the borrowers' names, and are arranged alphabetically. Following the title of the account is a ruled section, occupying the upper third of the page and devoted to the record of principal transactions. The columns in this section from left to right comprise the date, cash-book folio, loans, balance, date, cash-book folio, and payments. Each borrower's loans are treated as a running account, and the total is always shown in the balance column.

The lower two-thirds of the page is devoted to the record of interest charges and payments. The columns for charges are headed: from, to, days, on loans of, rate, and interest; for payments: date, cash-book folio, and amount. Each time the rate of interest or the principal of the loan changes, the facts are noted and the necessary calculations are made, thus keeping the clerical work at all times up to date, and leaving but one computation to be made in each open account at the close of an interest period or when the loan is paid off. The demand loan sheets are ruled alike on both sides, and when filled or when the loan is paid they are placed in a transfer binder. When a new loan is made to the same borrower, the sheet, unless full, is again transferred to the current binder. Bills for interest on demand loans are rendered at stated periods, and borrowers are encouraged not to make interest payments when making part payments on account of principal, although if desired this can readily be done, and the amount so paid will show as a payment offsetting the accrued interest.

In computing interest on loans, the actual number of days is taken. If the day on which the loan was made is included, the day of payment is not counted. These interest calculations are usually based on a year of three hundred and sixty days. When marking

LOAN ACCESSION BOOK

DATE	LOAN TO	Due	Rate	SECURITY DELIVERED			
				Shares	Bonds	Description	Price

Value	SECURITY DEPOSITED					ENTERED				Examined by Controller
	Shares	Bonds	Description	Price	Value	Collateral Record	Collateral Index	Balance Index	Loan Envelope	

DEMAND LOANS.

Date	C. B. Folio	Loans	Balance	Date	C. B. Folio	Payments

INTEREST

From	To	Days	On Loans of	Rate	Interest	PAYMENTS		
						Date	C. B. Folio	Amount

the rate of interest up or down, the bookkeeper takes the demand loan ledger and in the interest section he enters the date of the change, the new rate, and the amount of the loan. At the same time an assistant fills in the rate of interest and date on the notification slip which is sent the borrower. By having a set of envelopes already addressed, and the borrowers' names written on the slips, it is possible to change the records and get out notices very expeditiously.

Interest bills should be clearly and simply drawn, and should give the figures in such a way that the borrower can easily verify them. The practice in some trust companies of treating each note separately, instead of considering the whole loan as a running account, is confusing and adds enormously to the work of computing interest. The charges on the interest bill correspond exactly to the figures in the demand loan ledger, and the same data that appears in the ledger should be given on the bill. The following form, or some modification of it, is now in general use: —

days' interest from			to	on $	@	%			
"	"	"	"	" $	@	%			
"	"	"	"	" $	@	%			
"	"	"	"	" $	@	%			
"	"	"	"	" $	@	%			
"	"	"	"	" $	@	%			

In the case of time loans, a notice is sent the borrower shortly before the maturity of the loan, showing the amount of both interest and principal; in the case of commercial paper, the note having already been discounted, the face amount alone is shown.

For time loans, a modification of the demand loan sheet is used. As each loan runs for a definite period, there is, except in the case of an advance payment or overdue loan, but one interest calculation. When it is desired to show the interest accrued upon each loan, an entry is made at the end of each month charging the interest accrued for that month. The total of these items then forms the basis for the entry in the general ledger accounts. The columns, which run the whole length of the sheet, show the date when the loan was made, the date when due, the number of days, the rate and amount of the

interest, the cash-book folio, and the principal of the loans. The aggregate of the open items in the principal column on all the time loan sheets is in balance with the time loan account in the general ledger. The remaining columns are devoted to the payments received, showing

TIME LOANS

Made		Due		Days	Rate	Interest	C.B. Folio	Loans	PAYMENTS			
									Date	C.B. Folio	Interest	Loans

time loans. The form is also varied slightly, depending on whether the law permits the company to discount directly, or requires the paper to be bought after it is discounted, and accompanied by a bill of sale. In the latter case, the sheet — arranged somewhat similarly to the time-loan sheet — would provide a record for the date when bought, from whom bought, due, principal, payments, showing date and amount, followed by a section for "discount" in which columns are provided for date, days, rate, accrued, and payments.

Where a trust company discounts paper directly, this form does not apply. In such case the methods described in books on general banking should be adopted.

The sheets in the collateral record are arranged alphabetically, according to the borrowers' names, with a cross index, if necessary, arranged as to due dates of time loans and bills receivable. The heading of the sheet shows the name of the borrower, and, in pencil, the total amount of his loans. The remainder of the sheet and its other side are devoted to an itemized description of the collaterals. Columns are provided for the number of shares, the par value of bonds, the description of the security, the rate, and the total market value. The last two can be noted in pencil as they are frequently altered. The stocks should be listed alphabetically when the loan is made, and space should be left for additional items; the bonds, similarly listed, should follow.

The collateral index or line ledger is a cross index of the collateral record, arranged as to securities, and is kept so that the total amount of each kind of collateral may be quickly ascertained, both to prevent taking too large a quantity of any given security and, in case of a drop in price, to locate rapidly the various loans affected. This record can be kept on cards or sheets: on the latter the totals can be added more quickly; the cards have the advantage of containing no "dead" matter. When cards are used, a blue card describing the security comes first and is followed by white cards giving the name of each borrower in alphabetical order and the amount. Where sheets are used, the description of the security is given, followed by the list of borrowers and the amount of the security with each loan. The arrangement in both cases is primarily as to the security, and secondly as to the borrower.

Whenever substitutions of collateral are made, receipts are taken

COLLATERAL RECORD

LOANS TO

DEMAND $ TIME $ TOTAL $

Shares	Bonds	Security	Price	Market Value

on a "change slip" which shows the description and value of both the collateral withdrawn and that deposited in its place, with a statement that the new securities are subject to all the provisions under which the original collateral was deposited.

The arrangement of the notes and collaterals is often considered a matter of trifling importance, and they get little care after they are once securely locked within the vault. The usual practice is to put both note and collaterals in an envelope, or to tie bulky securities in a bundle. It is more satisfactory to keep both notes and collaterals flat in portfolios. These should be made of two pieces of tar board, $10\frac{1}{2}''$ x $15\frac{1}{2}''$, and should be held together by two loose straps of webbing, fastened with ordinary buckles. Manila sheets a trifle smaller than the outer boards are used to separate the loans of the various borrowers in each portfolio.

The closets in the vault devoted to the loans should have shelves about $4\frac{1}{2}''$ apart, on each of which a portfolio rests. On the outside of the closet door should be large letters showing the loans contained in the closet, all of which are arranged alphabetically. The portfolios are given consecutive numbers, and inside the closet door is an index list of the alphabetical divisions in each portfolio. Within the portfolio, each sheet bears on the right-hand lower corner the name of the borrower, and as it is in its alphabetical place, the loan can be quickly found.

Each borrower has an envelope, on which appear his name, the total amount of his demand loans and time loans, and a list of his collaterals. Within this envelope the various notes are kept. When payments on account are made, either a note of corresponding amount is cancelled or the credit is indorsed on one of the notes.

Below the envelope, flat and arranged alphabetically according to the name of the security, come the certificates of stock, then reorganization and other receipts, and at the bottom, bonds, divided into coupon and registered, also alphabetically arranged. All the collaterals belonging to a borrower should be kept together. When figuring margins, the total amount of the loans, irrespective of whether they are demand or time loans, and the total value of the borrower's collaterals are considered, because under the terms of the notes the collaterals pledged with any one note are equally applicable to all other outstanding loans.

SUBSTITUTION OF COLLATERAL

_____ 190

Received from THE MODERN TRUST COMPANY
the following Securities:

		MARKET VALUE
_____	@ _____	$ _____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
	Total	$ _____

And deposited in lieu thereof, subject to the same terms and conditions as collateral originally pledged:

_____	@ _____	$ _____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
_____	@ _____	_____
	Total	$ _____

_____

By keeping the portfolios moderately small and having a few extra ones in each closet, the system can be made to adjust itself easily to the changes which are constantly occurring.

MONEY RATE

The general public understands, more or less clearly, that the prices of most commodities are fixed by conditions of supply and demand, influenced by competition and various other factors.

When the commodity is money, however, more mystery seems to attach to the matter, and when the rate of interest to be charged on a loan is quoted with promptness, the individual borrower is often puzzled to know how the proper figure was decided on.

Speaking broadly, the laws of supply and demand govern the price of money. In England, the bank rate, fixed by the Bank of England, determines the exact figures. When the Bank of England finds its reserve, which is practically the reserve of the nation, being drawn on too heavily, it raises the rate at which it is willing to loan, and this has a tendency to lessen the demands on it. On the other hand, when the supply of idle money accumulates too rapidly, the rate is lowered in order to attract borrowers.

In this country, there is no single institution corresponding to the Bank of England. The government keeps its reserve partly in its own vaults and partly on deposit in the national banks. The rate for money is determined by the large financial institutions in the money centres, between which there is often a community of interest, if no closer relation. It may be possible to hold a fictitious rate for some time through a common agreement on the part of the chief lenders, but the price will always adjust itself in the end. Where, as in New York, funds are offered at the money post on the stock exchange, it is the bidder who fixes the rate. New York, being the chief money centre of the United States, regulates in a general way the price of money in all the other financial centres. When there is a good demand in New York, rates advance and idle funds are attracted from the interior. When rates fall, money is withdrawn.

The rates for call and time loans which are published in the newspapers often show considerable variations at different places: these figures are for brokers' loans, and the rates charged private

individuals are usually somewhat higher according to the amount and character of the loan. Individual borrowers sometimes feel that they are unfairly treated in being charged more than the published ruling rate for money, when, as a matter of fact, they would be quite unwilling to borrow on the "quick call" terms which are acceptable to the brokers, who have better facilities for securing funds at short notice.

The prevailing rate is changed either by the lenders one by one advancing or lowering the figures, or by their acting in concert and changing the rate simultaneously. The rate of interest on a time loan is fixed by agreement when the loan is made. In the case of call loans, when the rate is advanced the lenders notify the various borrowers of the change. When it is lowered, the lender either sends out notices in the same way or waits for the borrowers to request a reduction in rate. One method of maintaining a high rate in any particular place is to send surplus funds elsewhere, often to be loaned out at a much lower figure. The lenders naturally wish to use their funds so as to produce the largest possible return, but such a practice is sure to react in the long run and injure the commercial standing of the community. So large a proportion of business is done on borrowed money that the merchant or manufacturer who can procure funds most cheaply has a decided advantage over his competitors who are forced to pay more, and the short-sighted policy of withdrawing funds from the home community inevitably tends to drive business elsewhere.

INVESTMENTS

A trust company is known by the securities it buys.

Part of its capital is usually invested in the real estate, building, and equipment necessary for the transaction of the business. The remainder of the capital and the surplus form a permanent fund which can be invested in a very different class of securities from those in which deposits and other moneys liable to withdrawal at short notice are invested. Being liable for the acts of the company, the capital and surplus constitute a guarantee of corporate responsibility.

Only a few of the states regulate by charter provisions or general statute the investment of a trust company's own funds. The restriction most often found, which applies to other corporations as well as to

trust companies, is one limiting the amount of real estate which can be held. Trust companies usually are allowed to buy in real estate under foreclosure of mortgages or other obligations in order to avoid loss, but are required to dispose of such holdings within a limited period. This restriction is sometimes evaded by having an individual take title and give a mortgage for the full consideration or cost of the property. New York, Ohio, and a few other states specify in general statutes the character of trust company investments. Most of the states require reports of condition, including lists of investments, to be made to the state department having supervision. The publication of these reports is a valuable safeguard, and often discourages the purchase of questionable securities.

What the character of a trust company's investments should be, depends largely on the kind of business it transacts. The trust company which does principally a commercial banking or corporate trust business can take risks entirely unjustifiable for a company which executes chiefly individual trusts. In the transaction of a commercial banking business it is not unusual to make unsecured loans and to underwrite, in whole or in part, issues of corporate securities. Large profits have been made in this way, and corresponding risks have been taken.

Where a trust company makes a specialty of the care of estates, the situation is very different. A wealthy man about to appoint a corporate executor or trustee will want to know how the company invests its own funds. The laws generally do not require bonds, as in the case of individuals acting in fiduciary capacities. It is therefore essential that the company's own affairs should be conducted with extreme caution, and the character of its investments be strictly scrutinized.

Government, state, municipal, and standard railroad securities, and well-secured mortgages, are suitable for investment purposes. The securities of industrial corporations, being more liable to fluctuate in value, should only be held when of undoubted worth. Local conditions also have a bearing on the question of investments, and justify the purchase of different sorts of securities in different parts of the country.

An interest should never be taken in underwriting syndicates unless the intrinsic value of the securities has already been demon-

strated. Membership in a syndicate to purchase and market an issue of municipal or state bonds, or the underwriting of an issue of bonds of a dividend-paying railroad, may be entirely proper if the company is ready to hold the securities underwritten as permanent investments in case of failure to dispose of them. It is never right to assume obligations on account of securities of questionable value, or of companies which have not demonstrated their earning powers. It might be folly to buy a certain security selling far below its face value, and yet become the part of wisdom to invest in that same security after its permanent value had been proved — even if the price had gone up many points in the interval.

If an interest is regularly taken in underwritings, it is not always possible to refuse an undesirable offering, lest the source of supply should be cut off. The trust companies which never take an interest in underwriting syndicates, and there are such, undoubtedly miss opportunities for making profits, but may be compensated by avoiding losses from depreciated and unmarketable investments, and by the deserved reputation and increased business they gain thereby. Securities which the company would hesitate to have known were in its vaults should under no circumstances be purchased. The knowledge that a trust company of good standing has bought a block of bonds will often sell an entire issue. The brokers, knowing well that no more forcible argument can be made to individual customers, are always anxious to place part of their offerings in strong hands, in order to dispose of the remainder — usually at advanced figures. In this way a trust company assumes a responsibility which reaches far beyond its own customers. A trust company cannot afford to be discredited in the eyes of the public, and errors in judgment may lead not only to direct losses but to diminished prestige and a consequent withdrawal of business. The company may make an actual profit by the purchase and later sale of questionable securities, and yet incur an intangible loss far greater, for those who failed to sell at the right time will not soon forget through whose example they were persuaded to buy. The best securities are none too good for a trust company's assets.

The general ledger contains accounts showing the total of each class of investment, while auxiliary ledgers for stocks, bonds, real estate, etc., give the details of the various securities.

A form of investment ledger, either bound or loose-leaf, which is suitable for all sorts of securities, has a space at the head of each page for a description of the security and shows the rate of interest, when payable, basis upon which purchased, principal due, with blank lines for other data. Below follows a space for principal transactions, with columns for date, par value, rate, amount paid, balances showing both par and book value, date, par value, rate, and amount received. This ruling occupies but part of the page, the lower part being devoted to interest items. Under "interest," columns headed "accrued" and "payments" are three times repeated, and each is subdivided into "date" and "amount."

The relative space devoted to principal transactions and interest items is regulated by the character of the investment. For permanent investments the principal section is made about half the length of the interest section, and as the latter has three sets of columns, there are six times as many lines for interest items as for principal transactions. When this form of ledger is used for temporary investments, the page is divided in half, thus giving three times as many lines to interest as to principal.

In buying and selling securities, it is important to distinguish between principal and accrued interest, and to charge or credit them to their proper accounts. If the accrued interest is not considered, the books may seem to show a profit, where in reality there has been a loss. The following rules have been used satisfactorily to show the true condition as to investments and the income therefrom: —

Compute interest on the issue each month at the income rate or basis on which the bonds have been purchased.

For example: The interest, if the bonds have been purchased on a 4% basis, to be calculated during the first interest period at 4% of the book or cost value. Subsequently the 4% will be calculated on the increased (or decreased) book value.

Where an issue of serial bonds with more than one maturity has been purchased, it is necessary to determine by calculations covering the bonds of each maturity the income basis of the whole, and then proceed as above.

When the semi-annual or quarterly interest payment is received, the proportion belonging to income, as ascertained by the foregoing rule, is credited to income and the proportion belonging to principal

INVESTMENT LEDGER

Security

Interest %Payable Basis

Principal Due

Numbers

Date	Par Value	Rate	Amount Paid	Balances		Date	Par Value	Rate	Amount Received
				Par Value	Book Value				

INTEREST

Accrued		Payments		Accrued		Payments		Accrued		Payments	
Date	Amount	Date	Amount	Date	Amount	Date	Amount	Date	Amount	Date	Amount

is credited to the principal account. In the case of a bond bought below par, the accrued income will show more than the actual interest received and the principal account must be charged with the difference. To adjust the accrued interest and the principal accounts, the following journal entry is made at the end of each interest period:

(*a*) "Accrued Interest, Dr.
To Investments,"

or

(*b*) "Investments, Dr.
To Accrued Interest,"

according as the bonds have been purchased at (*a*) a premium, or at (*b*) a discount.

In order to determine the return from each class of investments, which are only shown in aggregate in the general ledger, a supplementary distribution book is used, in which the items in "interest accrued" are distributed according to the source from which they come. This book contains a date and total column followed by separate columns for the interest on each kind of investment: stocks, bonds, mortgages, real estate, demand loans, time loans, commercial paper, bank balances, etc. Each page has thirty-one lines numbered consecutively, and each day's receipts are entered on the line corresponding to the day of the month. The distributed items settle with the figures in the total column. At the end of the month the totals are shown and any deductions made. The net totals give the actual return on the various sorts of investments. A summary of the monthly totals, giving the return for each year, is kept at the back of the volume. These totals can be worked out to show the average percentage of income earned on each class of loans or investments.

The securities should be kept in a fire and burglar proof vault, and a company in the country or in a small town, which does not possess adequate safeguards for their care, should keep at least a portion of its securities in a safe deposit vault in some large city.

Each class of securities should be separated in the vault, for convenience in handling. Registered and coupon bonds and stock certificates should be kept flat in portfolios. The registered bonds and stocks should be arranged in alphabetical order. The coupon bonds should be divided into two general classes, — flat bonds, whose coupons are printed on the same sheet as the bond itself, and book

bonds, in which the coupons and the bond are on different sheets bound together. This distinction is made simply on account of the difference in size of the two sorts of bonds. Each class should be arranged primarily as to interest periods, for convenience in cutting coupons. The bonds of each interest period are arranged alphabetically. An index shows in which portfolio any given security can be found.

Mortgages are kept either in pasteboard boxes, expansion envelopes, or flat in portfolios.

The arrangement of securities is described in detail in connection with the trust department.[1]

PURCHASE AND SALE OF SECURITIES

Some trust companies maintain a regular department for the purchase and sale of securities; many occasionally do business of this sort for customers and friends; while others execute no buying or selling orders except through a broker and make no charge for the service.

In some places the trust companies do not engage in the bond business, in order not to antagonize the brokers and bankers, who are among their most profitable customers. Where a trust company does engage in this business, and particularly when it can state that it "offers and recommends for investment only such bonds as it has purchased outright after thorough investigation, and which it holds for investment on its own account," it is likely to command a respectful hearing from investors. If, however, it undertakes the flotation of projected ventures and the marketing of their securities, it assumes a responsibility out of all proportion to the possible gain.

Few investors, except among the very rich, make adequate examination into the value of the securities which they buy, and the recommendation of a trust company carries considerable weight. If the security is bought and later depreciates in value, the trust company will be considered partly responsible for the loss, even though no legal obligation was assumed. On the other hand, a bond department may be made not only a profitable part of the business, but a means of attracting customers to other departments.

The question of investments is a difficult one, and it is often a real comfort to the depositor to know that the trust company where

[1] See p. 159.

he banks and keeps his safe deposit box can, in its bond department, provide desirable securities when wanted.

Some trust companies purchase real estate mortgages and issue their bonds secured by a specific pledge of these mortgages as collateral. It is customary to pay a lower rate of interest on the bonds than is received by the company on the mortgages. The difference between the rate of interest paid and received, forms the company's profit. In this case the company issues its own obligation and assumes a direct liability.

The securities held for sale are shown in one controlling account in the general ledger, and auxiliary ledger accounts are kept with each security and each customer. The auxiliary security ledgers are in the same form as those used for the company's own investments. Card indexes showing the securities on hand, and the prices asked and received, are also used. The market price of the securities offered for sale should be closely followed in order to prevent the possibility of making sales either too far below or too far above the ruling price. Lists of bond offerings are often sent to customers at stated intervals and may be used as effective advertising matter.

The officer in charge of the bond department should have a good knowledge of securities, and be prepared to assist investors in making their purchases. A trust company should always urge its customers to look to the safety of their principal, even if this advice occasionally deprives it of a commission.

TRAVELLERS' LETTERS OF CREDIT

The constantly increasing stream of travel has forced the trust companies to make arrangements for supplying their depositors with funds while away from home. This is usually done through the purchase by the traveller of a so-called letter of credit. The letter of credit is a form of circular letter addressed to the various correspondents of the issuing house, advising them that the holder is entitled to a credit on their books of the amount stated in the letter. The credit is good for a limited period, and as payments are made they are indorsed on the letter itself. A specimen signature, either on a separate sheet or on the letter, serves as a means of identification.

A letter of credit is often drawn in favor of two or more persons, so that either can use it to procure funds.

The terms on which letters of credit are issued are various. A cash payment can be made, with the usual commission added, which is generally from one-half per cent to one per cent, depending on the amount. Or credits may be issued against a satisfactory guarantee of repayment as the drafts appear. Or a cash deposit can be made with the bankers, which is treated as an ordinary deposit account, on which interest is allowed on daily balances, and against which the drafts are charged on presentation. Approved collateral can also be deposited as a guarantee that the drafts will be met. When credits are issued against guarantee, cash deposited, or satisfactory collateral, the commission is added to the amount of each draft. If issued in a foreign country, each draft upon reaching the principal office of the bankers abroad is usually converted into dollars at the buying rate of exchange on New York, to which is sometimes added interest covering the time elapsing between the date of issue and that of final payment.

As the trust companies naturally prefer to have their customers deal through them rather than go directly to the bankers, it is customary for the trust company to attend to all the details connected with procuring the desired credits, and either to issue the letter itself as agent for a foreign banking house or to procure it from the banking house on presentation of the proper guarantee.

The trust company takes from its customer a guarantee by which it is authorized to arrange for the issue of the desired credit and to retain funds in the depositor's account sufficient to meet the total amount of the credit, and the depositor further agrees to accept as vouchers for moneys paid out all drafts issued or paid by the bankers under the letter of credit or any renewal or extension. If there is not a sufficient amount in the depositor's account to cover the entire credit, a satisfactory guarantee is given or collateral security is pledged on the usual terms. The trust company then issues its guarantee, and agrees to pay the bankers on demand the amounts drawn against the letter together with the usual charges. The trust company on issuing or procuring the credit has the customer append a copy of his signature to it, or to the proper document accompanying it, and sends other specimens of the signature to the bankers.

A record is kept of all letters of credit issued or guaranteed. It gives the date of issue, in whose favor drawn, the bankers, the number

of the letter, its amount and time of expiration, the account against which the drafts are to be charged, and the nature of the security. The date of cancellation of the letter is also recorded. The necessary data is given the bookkeepers and paying tellers so that sufficient funds may be retained to meet the drafts as presented, or if secured by collateral that the drafts may be honored. In the latter case, the deposit account shows a debit balance, and interest is charged on the amount of the overdrafts.

The depositors' guarantees are filed in numerical order, the cancelled ones separately from the rest.

The bankers usually allow the trust company a small commission on the amounts drawn under the letter of credit issued through them. The return is trifling, however, and the business is transacted primarily for the convenience of the customer.

A trust company doing a general commercial and foreign exchange business issues its own letters of credit and arranges for the payment of drafts at all important points. This, however, cannot prove profitable unless a considerable volume of business is transacted.

Travellers' checks are also issued by the principal banking houses. They are for fixed sums, usually £5, £10, or £20, and state on the face their value in the currencies of the various countries of Europe most frequently visited, so that the holder can tell the exact amount he is entitled to receive without any question being raised as to the rate of exchange. Identification is provided for by a specimen signature, as in the case of letters of credit. These checks are sold for cash at their face value and the usual commission.

Domestic letters of credit and travellers' checks are also issued for use in this country. They are similar to the foreign letters and checks except that they are issued in dollars instead of pounds or francs.

FOREIGN AND DOMESTIC EXCHANGE

A trust company which aims to serve the financial wants of its customers in every possible way is sometimes drawn from its purely local transactions into others of wider range. When customers call for drafts payable on other domestic points, if the company does not wish to send the business elsewhere, it must put itself in a position to supply them. This necessitates the carrying of deposit accounts

with financial institutions in the principal centres, against which the drafts are drawn. As New York funds are most in demand, the company may content itself with carrying accounts in that city alone, and issue drafts on New York which are readily negotiable in any part of the country.

When the trust company does a commercial business, the merchant may also invoke its services to collect or discount bills drawn against shipments of merchandise and to transfer his daily credits.

Foreign as well as domestic business must be provided for. With the expansion of the commerce of the United States has come the corresponding need of facilities for the transfer of credits to all parts of the world, and many financial institutions, finding the profits from such business satisfactory, have established foreign departments.

Foreign exchange is a system by which debts contracted in one country are paid in another. The rate of exchange is the value or price of the currency of one nation calculated in that of another. The trade balance between two countries is the difference between exports and imports, but their actual balance may be very different, owing to such other factors as the expenditures of travellers, purchase of foreign securities, and foreign loans.

Foreign exchange is used in the settlement of international trade balances, and serves by the use of credits to obviate the transportation of currency in payment of each separate transaction. By means of foreign exchange, balances are settled between different countries, just as a bank account enables an individual by drawing and receiving checks to effect the necessary transfer of balances without resorting to the use of currency. When gold, which is the standard of value for international transactions, is shipped, this is because such demand for exchange has arisen that the premium or price asked is in excess of the cost of actually transferring the metal. The moment that the price falls below this cost, shipments of the metal cease.

A foreign exchange business necessitates the opening of credits with banking houses in the principal financial centres of the world, or at least in London, with banks already having such connections.

Buying and selling drafts is the simplest form of foreign exchange transaction; in this business any financial institution may engage by simply opening accounts abroad, selling drafts to its customers,

and, in order to maintain the foreign balances, buying drafts payable abroad which it forwards for collection and deposit to its credit.

The more intricate foreign exchange transactions are largely in the hands of international banking houses, yet many trust companies which do a commercial banking business are establishing foreign departments both for the convenience of their customers and the more profitable use of their own funds. Their principal foreign business is in the buying and selling of exchange against merchandise and in connection with trade operations, in the purchase and sale of drafts, and the issuing of both travellers' and commercial letters of credit.

In exchange against merchandise, the process is as follows: the exporter, immediately on shipment of his wares, in order to reimburse himself, sells his draft drawn on the purchaser of the goods, with the bills of lading attached, and at once renounces title to them. The purchaser of the draft becomes the owner, not only of the draft for which the drawer is liable, but of the merchandise as collateral security. The draft may be forwarded direct to its destination for collection in accordance with its terms, or it may be sold and a profit at once secured.

Drafts are usually drawn payable at sight or at three, ten, thirty, sixty, or ninety days after acceptance. The term "Thirty days after sight" signifies that the draft is payable thirty days after its presentation to the drawee for his acceptance, or engagement that the obligation will be honored by him at maturity. Such presentation should be made promptly.

The successful conduct of a foreign exchange business requires a knowledge not only of monetary but of trade conditions abroad. In the purchase of a draft with a bill of lading attached, the amount of the draft has to be calculated in its equivalent in the foreign currency, and additional charges such as insurance, postage, interest, stamp tax, and commissions may have to be computed, and great care must be taken to be certain that all the papers are in proper form.

The transfer of credits from one country to another through a third having a different monetary standard, is called the arbitration of exchange. Thus in remitting funds from this country to Paris, it may be cheaper to remit by the way of London rather than to

purchase exchange on Paris direct, owing to the lower cost of exchange on Paris in London. The chief difficulty often lies in the intricate calculations by which the small profit on each transaction must be determined. Cambists, persons skilled in the exchanges of money, have prepared tables which are generally used in computing transactions in exchange and greatly facilitate the handling of business which would require an enormous expenditure of time and labor were each calculation to be made separately.

Foreign exchange is a distinct field of banking operations, occupied principally by the banks and international banking houses. Into it the trust companies are gradually entering, and for that reason it is briefly mentioned here.

STOCK LEDGER AND STOCKHOLDERS' DIVIDENDS

A trust company which maintains a transfer department can properly care for its own stock there, both in the making of transfers and the payment of dividends. Otherwise, the banking department is often charged with this duty.

In the stock ledger the stockholders' names appear at the head of each account, exactly as the certificates are registered. Each page has divisions for certificates cancelled and certificates issued, with a balance column between. The subdivisions on each side of the page are: date, name, transfer folio, certificate numbers, and shares.

The blank stock certificates are numbered, and bound in books holding from one hundred to five hundred leaves. When cancelled, the certificates are usually pasted back on their original stubs.

Transfers are made according to by-law and statutory provisions. The transfer book is arranged so that each page will suffice for one or for several transactions.

In companies having a considerable number of stockholders, an alphabetical card index is kept, showing their names, addresses, the number of shares held by each, and directions as to payment of dividends. This index can be either the original permanent orders signed by the stockholders or a transcript.

Dividends are declared by the board of directors, payable on demand or at a fixed date, in accordance with the requirements of

the by-laws. When a stock is listed, the rules of the local stock exchange as to the declaration and payment of dividends must be observed. The usual method is for the board to declare by resolution a dividend payable to stockholders of record on a date named, at least several days later than the meeting, and payable at a still later time. These facts are at once made public by advertisement and notice to the stock exchange, thus affording an opportunity for the transfer of shares in time to receive the dividend. Stocks are often held for speculative purposes in bearer form indorsed for transfer by the seller, and are not actually transferred until just before a dividend payment.

It used to be the custom to close the transfer books for some time, and open them after the payment of the dividend; but this practice is being generally abandoned as it serves no good purpose, and the books are now usually closed only over night.

A dividend list is prepared, giving the number of each check, name of the stockholder, number of shares held, amount of dividend, to whom payable, and what disposition is to be made of the check. This serves as a stub, and loose, numbered checks are filled in from the data on the dividend list. The checks are, for convenience, specially printed or engraved. The following is a form very generally used: —

DIVIDEND CHECK

The proper indorsement of this check is a sufficient acknowledgment of the receipt of the dividend. Please deposit it, or have it cashed promptly.

No. _____ 190

THE MODERN TRUST COMPANY

Pay to the order of _____

_____ Dollars,

being Dividend No. 1, payable this date, on _____ Shares of the Stock of this Company, standing in the name of

_____

$_____ _____ *Treasurer.*

When dividend checks are mailed a printed notice giving further information is often sent with them.

The old method of paying dividends and interest over the counter,

and taking a receipt, has been almost entirely superseded by the acceptance of permanent mailing orders. Whatever advantage may have accrued from the stockholders visiting the company's building at stated intervals, did not compensate for the loss of time and interruption to regular business.

EXPENSE ACCOUNT

It is important that the authority for all expenditures should originate from a single source. One of the general officers should be responsible for making contracts and giving orders.

A card index record is kept of all outstanding contracts, such as those for advertising, coal, and telephones. For separate purchases order books are used, and all orders are given in writing on a regular form with the words, "Please send us with bill, and charge to our

THE MODERN TRUST COMPANY

To _____ Date _____

Please send us the following check books and charge to our account: —

Number of books_____ Checks to book_____ Checks to page_____

Paper_____ Style_____ Binding_____

Numbered, commence_____

Print on end of check_____

Print on bottom of check_____

Cost of Printing_____

Cost of Binding_____

Cost of Numbering _____

Total_____ (Signed)_____

Treasurer.

account," followed by an itemized list of the goods required. The order should also contain the statement that bills must in all cases be sent promptly and be distinctly marked with the number of the order. Either a stub or carbon copy of the order is kept. A separate order book can be used for each firm from which goods are regularly purchased, and special order forms are often a great convenience. The above form, used in ordering special check books

printed for depositors, prevents omissions and errors, and simplifies an otherwise troublesome detail. A supply of unbound checks is kept on hand, and the prices for printing, binding, and numbering are fixed in advance by contract.

When goods are delivered, they are compared with the accompanying bill and the original order. If correct, the bill is marked by the stock clerk, and the price and date when received are noted in the order book. The bill is then entered and given a consecutive number in the record of expenses book, which corresponds to what is commonly known as the voucher record. When goods are being constantly ordered and received from the same firm, instead of entering each item separately, a statement of the total month's purchases is verified by comparison with the order book, and is then entered as a single item in the record of expenses. The unchecked items in the order book represent the goods not yet received. For convenience in finding these open items, their numbers are listed on the back of the last stub or page used during the month.

If a bill is to be paid at once to bearer, the proper entries are made in the record of expenses book, the bill is numbered and initialled by the disbursing officer, and is then paid by the teller, who takes the receipted bill itself as his voucher. If payment is to be made when no bill has been presented, an ordinary charge slip may be made out. The regular bills should be paid by check on fixed dates, at least twice a month. It is convenient to have special checks printed with the words "Charge Expenses Payable." Both the bill and check are given the same number, and after payment are filed together in numerical order. Instead of using the original bills, the data may be copied on special voucher forms. The vouchers are uniform and easier of reference, but involve more labor than the original bills.

An effort should be made to get, on the last day of each month, statements of all purchases made within the month, so that the actual outstanding liability can be shown in the monthly balance sheets. A careful record of expenses is the first step toward a thorough analysis of the expense account. In commercial business and in manufactures, cost accounts are treated on an almost scientific basis. Maintenance and depreciation of plant, general expenses of management, as well as materials and labor, must be considered in estimating

the cost of production. In financial business the problem is simpler though no less important, yet few trust companies analyze their expenses at all, or if they do, they merely divide them into such general items as salaries, printing, stationery, postage, coal, etc., which afford no basis for determining the cost of the various parts of the company's business.

The fundamental division in an analysis of expenses should be into general costs affecting the entire business, and the special costs of each department. If so desired, the general items can be prorated among the different departments. For the ordinary purposes of a trust company this is, however, not necessary.

The record of expenses contains the itemized list of charges properly distributed. Two pages are required for the form. Commencing on the left-hand side are columns for the voucher number, date, name, total amount, and date of payment. The total of the unpaid items agrees with the balance in "expenses payable" in the general ledger. Then follows the distribution in a series of columns for the different kinds of expense, which settle with the total column. The following arrangement has been found a satisfactory one, and admits of modification to suit the details of each business: —

General Officers. — This item includes all officers whose services are not devoted to a single department. Not only salaries, but all expenses incurred on their account are included.

Directors. — Fees paid directors for board and committee meetings, examinations of assets, and expenses on their account are recorded under this head.

Legal Expenses. — Covers general legal expenses only, such as retainers paid counsel, and costs not chargeable to a separate department.

Telephone. — Large companies have private branch exchanges and employ one or more telephone operators. Rentals, calls not chargeable to a particular department, and wages are included.

Advertising. — Newspaper and all other forms of advertising are shown here.

Messengers and Watchmen. — Wages, uniforms, and all other charges are included.

Lighting and Heating. — Covers wages of engineers, electricians, and firemen, coal, gas, electricity, etc.

Maintenance of Building. — All repairs to the building are shown under this item.

Maintenance of Equipment. — Repairs and renewals of furniture and fixtures are included.

Then follow the various departments, according to the organization and business of the company: —

Banking Department. — Salaries of officers whose whole time is devoted to the department, wages of clerks, cost of printing, stationery, postage, and all other items chargeable to the cost of maintaining the department are included.

Savings Fund Department. — When managed as a separate department, this item is shown. It is often included in the banking department.

Trust Department. — When all trust business is transacted in the same department, one item is shown. When separate departments for corporate trust and for individual trust business are maintained, they are shown separately and may be further subdivided.

Safe Deposit Department. — This item is treated in the same way as the other departments.

Restaurant. — If a luncheon is provided for the officers and clerks, the total cost should be shown and itemized as to wages, groceries and provisions, meat, butter and eggs, fruit and vegetables, ice, milk, and maintenance of equipment. Where an allowance is made for meals when clerks are obliged to work overtime, another column, "Clerks' Suppers," should be shown.

Miscellaneous Expenses. — All items which cannot be otherwise distributed are included under this caption. This column should be used only as a last resort.

In order to include expenses in the daily balance sheet, the following is the mode of procedure: —

Each morning the total sum shown by the record of expenses for the current month is added to the amount on the credit side of the expenses payable account in the general ledger and the amount shown on the debit side of the expenses payable is deducted. The balance then represents the amount of outstanding liabilities to be entered on the comparative daily balance sheet, as expenses payable. The total for the current month shown in the record of expenses, plus the balance of "expenses" in the general ledger, is entered as expenses

on the comparative daily balance sheet and represents all liabilities incurred whether paid or unpaid. This is a short method equivalent to a daily entry through the journal.

At the end of the month, the total shown by the record of expenses is brought into the general ledger by a journal entry charging expenses and crediting expenses payable.[1]

At the back of the record of expenses a summary is kept, arranged as to months and years. Here one can see at a glance how the expenses of one month or year compare with another, and any discrepancies or large changes in totals can easily be detected and the causes investigated.

Supplementing the record of expenses is a card index giving the names and addresses of all firms appearing in the book. Following the name and address are the numbers of the firm's vouchers, arranged chronologically. This card index obviates the necessity of keeping a purchase ledger in which the account with each firm is shown in detail, and enables one to locate quickly the purchases from a given firm in the record of expenses or in the bills themselves.

PETTY CASH RECEIPTS

In large companies, a petty cash receipts book should be kept in which all petty items forming credits to the expense and other general ledger accounts are entered. The book should be closed at regular intervals, and the cash on hand be turned over to the receiving teller with a slip showing the proper general ledger accounts to be credited.

PETTY CASH PAYMENTS

There should be only one petty cash drawer. A fixed sum should be held as a permanent fund to meet petty expenses. This amount is carried as an item in the paying teller's settlement. Payments from this fund are made only on bills or slips approved by the proper officer. These vouchers are examined at fixed periods and, if correct, the expense account is charged with the total, and the fund replenished to its original amount. A record of these payments is kept in an ordinary cash book. This plan is much to be preferred to the common practice of having the paying teller pay these items, carrying them as cash, and charging them to expenses at the end of the month.

[1] See under General Ledger, p. 238.

PAYMENT OF SALARIES

In trust companies, salaries are generally paid either once or twice each month. Monthly payments reduce the clerical labor to a minimum, and are customary in financial institutions where the employees are usually in a position to make their domestic arrangements conform to a monthly pay-day.

If possible, salaries should be paid by check, as this obviates both putting up the pay-roll and taking separate receipts. When a check is used, the employee's indorsement is all that is required. A list is prepared, showing the name of each employee and the number and amount of each check. Loose checks are written up from this list, which serves in place of a "stub" and is filed to show the details of the salary item in the expense account, so that it may be divided according to the charge against each department. Where salaries are fixed by definite rules, according to the position held, length of service, etc., there is no motive for secrecy; but where there is no uniform scale, the amount paid each employee is often considered an absolutely confidential matter, and the disbursing officer is obliged to use cash. When cash is used in making salary payments, it is well to prepare a list giving the name of each employee, followed by columns showing the number of each denomination of note and coin required, and the total of each payment. The total number of pieces of each denomination settle with the footing of the total column and prove the correctness of the pay-roll. In putting up the money, the largest possible denominations are used to make each amount. The envelope should be large enough to hold notes without folding, and should be numbered to correspond with the employee's sheet in the salary book. This salary book should be composed of loose leaves with an alphabetical index on the inside front cover. Each page is headed with the name of the employee, the number of the sheet, and the following printed statement: —

"I acknowledge the receipt of the sums written opposite my several signatures below, for my salary in full to the dates stated."

The remainder of the sheet is ruled in perpendicular columns for date of payment, amount, to what date, and the employee's signature. The

amount of each payment should be shown in figures. Sheets no longer in use are removed from the binder and filed alphabetically. When the salary covers the calendar month, it is wise to "pay off" a day or two early, so as to avoid the rush of the last and first days of the month. Sometimes the salary period is to a fixed date during the month, such as the fifteenth or twentieth.

The salary should be put up the day before it is paid, and the payments should be made at the opening hour, so as to interfere with business as little as possible. When the salary is paid in cash, the employees should go to the disbursing officer's counter to receipt for and receive their envelopes. When payment is made by check, the disbursing officer can save time by visiting each department in turn, instead of having the employees come to him.

CHAPTER VI

CORPORATE TRUST DEPARTMENT

THE same charters under which trust companies have become trustees and agents for individuals have made it possible for them to act in like capacities for corporate clients. As their corporate business has grown, they have increasingly found the necessity of organizing it in a separate department. The distinction is based more on practical convenience than on any real difference of function. In a small company both kinds of trusts may perfectly well be grouped together, provided separate records are kept. In a company doing a large corporate business, the corporate trust department may itself have to be subdivided according to the various duties which the company assumes.

TRUSTEE

A generation ago it was customary for a railroad to name one or more individuals as trustees of the mortgages executed to secure bond issues. The development of trust companies and their manifest advantages over individuals in such a capacity has resulted in their absorbing almost all this business. Trust companies are now generally appointed as trustees in corporation mortgages, and are also often named to succeed individuals who have died or resigned. The appointment is one of the most important and far reaching which the trust company can accept. Its name and reputation serve as an assurance that the transaction is a regular one, entered into in good faith, and that the necessary legal and other formalities have been complied with. Although the modern corporation mortgage is usually explicit in its terms to the effect that the trustee in no way guarantees the value of the security and assumes no liability except for its own negligence, yet the intimate connection between the trustee and the borrowing corporation in the minds of investors makes it necessary that care be taken not to assume trusteeships which may lead to a wrong use of the name and credit of the trust company.

As trustee under mortgages securing bond issues, the title to the mortgaged property is vested in the trust company for the benefit of the security holders. The corporation owning the mortgaged property retains physical possession of it so long as the terms of the obligation are complied with, except in the case of securities pledged, which are usually lodged with the trustee. In case of default, however, it devolves upon the trustee to protect the interests of the bondholders, and this may necessitate the foreclosure of the mortgage and sale of the property.[1]

Before accepting a corporation mortgage trust, all reasonable care should be taken to ascertain the correctness of statements and the legality of the mortgage, even though the liability of the trustee is restricted to gross negligence or wilful default. An opinion should be required from the counsel of the corporation making the mortgage that the document is in proper form, that its purpose is lawful and in accordance with the statutes of the state in which the premises to be mortgaged are situated. A draft of the proposed mortgage and bonds should be submitted to the trust company for inspection and be passed on by its own counsel. As the exact provisions of each mortgage differ, it is a safe rule never to accept a trusteeship until the papers have been approved by counsel.

The mortgage should contain clauses clearly defining the rights and duties of the trustee and limiting its liability. Provision should also be required for indemnification against expense in taking action to enforce the rights of the bondholders, and limiting the right of such action to the trustee except in case of the trustee's refusal to act.[2]

The mortgage should contain a clear and concise description of the mortgaged property, and if it is stated that it is a first lien against the property, the fact should be verified. After the preliminary arrangements have been completed, including an agreement as to compensation, the mortgage is executed and acknowledgment of the acceptance of the trust is made by the trustee. The mortgage is executed in duplicate, and when it is necessary to record the docu-

[1] For a full and interesting description of railway bonds, see "Corporation Finance," by Thomas L. Greene, p. 33 *et seq.*

[2] See "Essentials required by Trust Companies to be put in Mortgages and Other Papers," Andrew Squires. Proceedings Trust Company Section, American Bankers' Association, 1900.

ment in several states more copies may be required. A final opinion of counsel may be obtained, after the mortgage is recorded.

It is usual to have bonds engraved by responsible companies, from specially prepared plates. Precautions are taken to prevent any impressions being lost or stolen, and the engravers may even be required to give security against loss resulting from negligence on their part. The bonds are sealed with the corporate seal, attested by the officers of the issuing company, and are then sent to the trustee who certifies and delivers them as provided in the mortgage. Before being certified, each bond should be examined to see whether it is in proper form. The exact phraseology used in certifying bonds varies, the intent being simply to identify the security. The following is one of the more usual forms: —

"It is hereby certified that this is one of the bonds described in the mortgage or deed of trust within mentioned."

To this is added the name of the trust company, trustee, and the signature of the officer who certifies the bond.

The mortgage provisions for delivery of the bonds by the trustee vary widely. It may be stipulated that the entire issue is to be certified and delivered as soon as the mortgage is recorded; or that a fixed amount be issued, depending on the completion of work on the mortgaged property, as for instance, when a railroad mortgage specifies that a definite number of bonds may be issued for each mile of roadbed constructed. Part of an issue may be reserved to retire underlying bonds as they mature, and provisions may be made to issue a fixed amount each year. When a loan is made to provide funds for the construction of a railroad or other enterprise, the trustee is sometimes required by the terms of the mortgage immediately to certify and deliver all the bonds, even though the work has not begun. Such a course may open the way to gross irregularities and misappropriation of funds. It is far safer to require that bonds shall be delivered only as the work progresses. A mortgage may provide that all subsequently acquired property shall be subject to its lien, that properties may be sold and released, and that other properties may be substituted in their place. When properties are released, the trustee may join in the conveyance. Many mortgages provide that the issue may be redeemed at a premium after a fixed date, either at

the option of the company issuing the bond, or by the operation of a sinking fund.

If the mortgage provides for a sinking fund which will secure the gradual retirement of the bonds or their payment at maturity, it is incumbent on the trustee to see that such sinking fund provisions are complied with. A frequent provision is that a certain number of bonds may or must annually be retired, either at par or at a premium. In accordance with the terms of the mortgage, the numbers of the bonds to be called for payment are drawn by lot, and public notice of their redemption is given. When the issue cannot be retired before maturity, the sinking fund may be used in buying bonds of the issue or may be invested in other securities.

In the case of "collateral trusts," the security usually consists of the stock and bonds of subsidiary companies. The trust may also include a general lien, subject to all prior obligations, on the real estate and other property of the borrowing company. The securities are deposited with the trustee. They are held either with powers of attorney attached so that they can be transferred if necessary, or they are registered in the name of the trustee. If substitution of collaterals is permitted by the terms of the mortgage, the trustee should be satisfied that the new securities are fully equal in value to those withdrawn, and in cases of doubt the trustee may require not only the opinion of counsel, but an order of court.

"Car trust" and "coal trust" agreements are other forms of collateral trust. Under the former, the title to the cars vests in the trustee, from whom they are leased by the railroad company. The trustee issues the bonds or certificates as the cars are delivered and paid for. The rental received by the trustee is sufficient for interest charges and the retirement of a certain number of the bonds each year. In this way depreciation of the value of the collateral is provided for, and the issue is entirely paid off during the life of the cars. Coal trust agreements are designed to enable the owners of the coal to obtain advances by issuing bonds or certificates before sales have been effected. In such cases the coal accounts are kept by the trustee as selling agent.

Collateral trust obligations may be issued by the borrowing company and certified by the trustee, or they may be issued by the trustee itself in accordance with the provisions of the trust agreement.

If the borrowing corporation complies with the terms of the mortgage or deed of trust, the duties of the trustee may be almost nominal. At maturity, on the payment of principal and interest, the mortgage is satisfied of record by the trustee and the bonds are cancelled. After payment and cancellation the bonds may be burned in the presence of the trustee, and a cremation certificate executed and acknowledged.

A clause is sometimes inserted in corporation mortgages providing for their satisfaction by the trustee and the release of the mortgaged property, before all the bonds have been presented for payment. In such cases, funds sufficient to meet the outstanding bonds are deposited with the trustee.

For the general record of corporate trusts, a loose-leaf book can be used to advantage. The special records of corporation mortgages or trust deeds, to be inserted in this, comprise three sets of sheets: for an abstract of the document; a record of bonds received, certified, and delivered; and of bonds paid, cancelled, and cremated or returned.

Sheet A. — Abstract. At the top of the page appear the title of the account and trust number. As an aid in preparing the abstract, it is well to print the principal subjects usually appearing in corporation mortgages. The following list may be extended or altered to meet varying requirements, enough space being left to note briefly each item: —

Mortgage or deed of trust dated Recorded
Lien,
Amount,
Interest rate,
Interest due,
Interest payable at,
Bonds due,
Bonds payable in gold or coin,
Bonds, coupon or registered,
Bonds, provision for exchange from one class into the other,
Bonds, denominations and numbers of,
Bonds to be issued, how, when,
Bonds issued, for what purpose,
Bonds to be drawn or purchased, how, when,
Description of mortgaged property,
Sinking fund, provisions of,
Statements to be furnished trustee,

SHEET NO. _____ ABSTRACT _____ NAME _____ NO. _____

Mortgage or Deed of Trust	Bonds to be issued, how, when	Statements to be furnished Trustee
Dated		
Recorded		
	Bonds issued for what purpose	
Lien		Releases Power of making
Amount		
Interest rate		
Interest due		
Interest payable at		
	Bonds to be drawn or purchased, how, when	
		Default
Bonds Due		
Bonds Payable in Gold or Coin		
Bonds, Coupon or Registered	Description of Mortgaged Property	Charges for.--
Bonds, provision for exchange from one class into the other		
		Accepting Trust
		Certifying Bonds
	Sinking Fund, Provisions of	
		Paying Interest
Bonds, Denominations and Numbers of		
		Other Services

Releases, power of making,
Default,
Charges for accepting trust,
Charges for certifying bonds,
Charges for paying interest,
Charges for other services.

The back of the sheet is headed "Other Provisions of the Mortgage or Deed of Trust," and is used when the printed form of abstract is unsuited to any particular document or when the space provided is insufficient. If this page is not enough, additional sheets are inserted as required. A very brief abstract of the contents of each article of the mortgage, arranged by number in the same order in which they appear in the original document, is also helpful. Following the abstract, brief entries can be made, in chronological order, of any important transactions which have a bearing on the case.

Sheet B. — Record of bonds received, certified, and delivered. The trust number and title of the account are shown at the top. The upper third of the page is devoted to bonds received and bonds certified. At the left-hand side are columns for the date, bond numbers, and amount of bonds received. The bonds certified section to the right has columns for date, certified by, bond numbers, and amount, the series being repeated. The remaining two-thirds of the page is for the record of bonds delivered. This section occupies the entire width of the sheet and contains columns for date, whose order, delivered to, coupon, bond numbers, and amount. By the omission of the "delivered to" column and the substitution of one headed "received by," following the amount column, the receipts for bonds delivered can be taken on the same sheet. The difference between the bonds received and bonds certified shows the bonds on hand and uncertified. The number of bonds certified less the bonds delivered gives the balance of certified bonds on hand. The form is duplicated on the back of the sheet, and in large bond issues several leaves may be needed for the same security.

Sheet C. — Record of bonds paid, cancelled, and cremated or returned. The record of securities retired is kept on this sheet and shows the various steps in the process, as the form just described does in the matter of their issue.

The upper two-thirds of the page is devoted to bonds paid and bonds cancelled. The bonds paid section contains columns for date,

RECORD OF BONDS RECEIVED, CERTIFIED AND DELIVERED _____ NAME _____ NO. _____

BONDS RECEIVED				BONDS CERTIFIED											
Date	Numbers		Amount	Date	Certified by	Numbers		Amount			Date	Certified by	Numbers		Amount		

BONDS DELIVERED

Date	Whose Order	Delivered to	Coupon	Numbers		Amount			

RECORD OF BONDS PAID, CANCELLED, RETURNED, OR CREMATED_____ NAME_____ NO._____

BONDS PAID						BONDS CANCELLED			
Date	Numbers	Amount	Date	Numbers	Amount	Date	Cancelled by	Numbers	Amount

BONDS RETURNED OR CREMATED

Date	Whose Order	Coupon	Numbers	Amount	How Disposed of	Received or Cremated by

numbers, and amount, the series being repeated. To the right of this section is that for bonds cancelled, containing columns headed date, cancelled by, numbers, and amount. The remaining section, occupying the lower third of the page, has columns headed date, whose order, coupon, bond numbers, amount, how disposed of, and a signature column for receipts in case of return of the cancelled bonds, or, in case of cremation, for the signature of the officer attesting this fact.

When an account is closed, all its sheets are put in a transfer binder. Both open and closed accounts are kept in the order of their trust numbers.

A special record of the issue of coupon and registered bonds is kept when the two classes are interchangeable at the pleasure of the security holder. The rules of the New York Stock Exchange require that when such exchange is made, the numbers of the original bonds must appear on the securities issued in lieu of them.

The books just described relate to the documents and history of each trust, and do not provide records of cash transactions. Receipts and payments of cash enter into most, if not all, corporate trusts, but as these closely correspond to the transactions involved in individual trusts, the necessary forms and operations are described in later chapters.[1]

FISCAL AGENT

As fiscal agent the trust company takes such general or special charge of the finances of its corporation client as the agreement in each case provides. It may virtually assume the rôle of treasurer, making all collections and disbursements, or it may merely receive securities for safe-keeping, or make investments or collect income. It may act as fiscal agent for the payment of coupons, interest, dividends, and principal moneys, under the terms of a mortgage, or independently of any trusteeship. In both cases the procedure is identical, but in the former the authority is found in the mortgage or trust deed; in the latter, an agreement is entered into, defining the duties and liabilities of the fiscal agent and the corporation for which it acts. An abstract sheet in the general record of corporate trusts should give the details of the appointment. For the payment

[1] See p. 184.

of all coupons, bonds, interest, and dividends, payable at the office of the trust company, a special window may be provided in the corporate trust department.

All moneys received for disbursement by the fiscal agent, both income and principal, are entered in a scratcher and are passed over to the trust department receiving teller for deposit in bank.

Coupons are presented for payment in envelopes specifying the title of the security, number and amount of the coupons, and the name of the institution or individual presenting them. Payments are made, when possible, by check. On the stub of the check book the name of the payee and the title and total amount of each sort of coupon paid is shown. To provide for cash payments, a petty cash account is opened in the corporate trust ledger, and a check is drawn for a fixed amount, sufficient for ordinary needs, to be kept in the cash drawer. A "petty cash" book is used in which the payments are itemized as they are made. The amount of money and paid coupons on hand, at all times equal the balance of the account in the corporate trust ledger. At the close of each day or when the money is exhausted, a check is drawn covering the total amount paid out, the stub showing the several coupon or other accounts and the amount to be charged to each. The "petty cash" book is settled periodically or when the fund is replenished.

All payments by check are entered in the scratcher from the data on the stubs. In the scratcher these payments are grouped according to the accounts to be charged. The various items composing each charge are entered short, the aggregate being extended. The totals in the scratcher settle with the total payments shown by the stubs and agree with the face value of the paid coupons. The scratcher is used by the bookkeepers in making the necessary entries in the corporate trust ledger. But one posting is made, covering the day's total payments against each account. Each sort of coupon is in a separate envelope when presented for payment. They are stacked like a card index in tin boxes of the proper size to hold the ordinary coupon envelope, and when sorted all those containing coupons of the same issue are placed together. After the day's business is settled, and the coupons of each issue are found to agree with the figures in the scratcher, they are cancelled by having one or more holes punched in them. All cancelled coupons from each sort of bond are kept together, and

at proper intervals they are sent with a statement of the account to the company which issued the security.

The statement is an ordinary cash account showing the balance on hand from last statement, cash received, payments made, and balance on hand representing the value of the coupons still outstanding. With this statement it is usual to send a letter of advice and a form of receipt to be signed and returned. The following details are shown in the receipt: description of coupons, when due, coupon number, number of coupons, @, amount, and total.

In an issue of bonds subject to redemption, great care is required to detect coupons presented for payment which have been detached from called bonds. As calls are often advertised in only one or two newspapers they may escape the notice of bondholders; hence it is well to refuse payment of the coupon due on the date when interest ceases unless the called bond is presented at the same time, or, if the coupons are paid, pains should be taken to notify the payee of the call. Otherwise the bonds may be held until the following interest period, and the unsuspecting owner's first notice may be the return of the next coupon with a statement that the bond had been previously called and that interest had ceased.

Occasionally coupons are payable only on the order of the registered owner of the bond — another annoying pitfall for the coupon clerk to guard against. Fortunately, such provisions are rare.

For the payment of dividends, dividend lists are prepared and certified as correct by the transfer agent. The transfer agent may be the transfer department of the same trust company which acts as fiscal agent, or some other corporation; or, in the case of organizations which transfer their own shares but employ a fiscal agent to distribute profits, it may be the company declaring the dividend. The dividend list is prepared from the stock ledger on loose sheets ruled in columns for the name and address of the stockholder, the number of shares held. the check number and amount of the dividend, and the name and address of the payee. When received from the transfer agent, the dividend sheets contain the names and addresses of the stockholders, the number of shares held by each, and directions as to the payment and disposition of the dividend. The sheets are preferably made out on the typewriter. To the data received the fiscal agent adds the number and amount of each check. The dividend sheets serve as

THE MODERN TRUST COMPANY.

_____ 190

Mr._____

_____

Dear Sir:

We forward you to-day by _____ a package of cancelled Coupons, aggregating _____

_____

_____ Dollars, which have been paid by us out of funds deposited by your Company for that purpose.

Please sign and return the accompanying receipt.

Very truly,

_____

MANAGER CORPORATE TRUST DEPT.

Received _____ 190__ from THE MODERN TRUST COMPANY the above described Coupons aggregating _____ Dollars which have been paid by said Trust Company out of funds deposited by this Company for that purpose.

By _____

Description of Coupons	Coupon Due		Coupon No.	Number of Coupons	@	Amount			Total		

stubs, and from them the checks are prepared. Loose checks are used, numbered consecutively. The dividend sheets and corresponding checks can be distributed among a number of clerks and a long list can be disposed of rapidly. If the dividends belonging to a large number of stockholders are payable to a single corporation or individual, or if stock is held by a corporation acting in various capacities for a number of accounts, such holdings can be listed on a single dividend sheet, and one check be issued covering all. In such cases a letter of advice is sent with the check, showing the items represented by it transcribed from the dividend sheet. The name of the payee and the amount in figures are usually written on the checks by hand. The amount in words in the body of the check is often filled in with a rubber stamp. For this purpose racks of stamps are kept on hand, with the various combinations needed for dividend distributions at various rates. Indelible ink is used as a safeguard against alteration. Odd amounts for which no stamps have been provided can be written in by hand. The amount stamped in the body of the check can easily be compared with the figures when the checks are being signed. If the dividend list is long, the names and addresses of the payees are printed with a stencil in a position to show in an "outlook" envelope.

The dividend check may contain full information as to the nature of the disbursement. In this case it is not necessary to enclose a card with the check. If one is sent, the following form is sufficient: —

THE MODERN TRUST COMPANY

The enclosed dividend check is mailed you in accordance with the terms of a standing order on file with this company.

Please deposit the check or have it cashed promptly.

No acknowledgment is required.

Prompt notice should be given if address is changed.

When no details are given on the check, it is customary to enclose an explanatory card specifying the name of the company, the rate of the dividend, and the date when payable, in addition to the more general information given in the form shown above.

Where "outlook" envelopes are not used the addressing can be

most rapidly and accurately performed by the use of a mechanical addressing device, and in case of loss the stencil remains to prove where the dividend was sent. The stencils are kept in boxes, stacked on edge in alphabetical order. Changes are made as notice is received, so that the list is constantly ready for use. Where the envelopes are addressed by hand, this is often done at slack times, in order to provide occupation for the clerks in the department. As each envelope is addressed it can be dropped back of the card in the stockholders' index giving directions as to the disposition of the dividend. This makes it easy to alter addresses on both cards and envelopes at the same time and to have a set of envelopes constantly ready for use.

If a number of checks payable to various stockholders are mailed to the same individual or company, it may be worth while to use an alphabetical sorting tray so that all the checks to be sent to a single name can be put in the same envelope.

When the dividend checks are issued, the ledger account containing the funds to meet the disbursement is charged through the scratcher with the total payment. As the checks are paid and returned cancelled, they are checked off on the dividend list. The amount of the outstanding checks is verified by settling the deposit account against which they are drawn. The cash balance in the account equals the amount of the unpaid checks. The lists for each company whose dividends the fiscal agent pays are filed chronologically in binders.

The procedure in paying registered interest is the same as in paying dividends. In making principal payments, whether of coupon or registered bonds, the securities are presented as in the case of coupons, and the items are treated in exactly the same way. If the principal is registered, a power of attorney to transfer the security to bearer, and, when required, evidence of the authority for making the transfer, must accompany the papers.

The bonds after payment are cancelled, unless the issue is to be extended or for some other reason the lien of the mortgage is not extinguished.

When the fiscal agent takes charge of the securities or other assets of a corporation and makes investments, collections, and disbursements, the relation is precisely similar to that of agent for an individual, and the method of procedure is the same.

REGISTRAR

The New York Stock Exchange, like most other stock exchanges, in its constitution requires that all active listed stocks must be registered. This Exchange also requires that a trust company or other agency shall not at the same time act as registrar and transfer agent of the same corporation. In the popular mind, and even in the minds of some trust company officers, the difference between the duties of the two positions has been more or less confused. Both have been created to safeguard and facilitate the passing of title to shares of stock, but "the duties of a transfer agent and a registrar are not synonymous; they are distinctive. One is called upon to examine and give clear titles to property transfers, and the other is merely to record such transfers. Were both to assume equal responsibility, it would cause a conflict of authority and a delay of business that would be almost impossible of execution, especially in New York, where the volume of business is tremendous. Consider the fact: Some transfer agents alone act for corporations whose total capital aggregates a billion and a half of dollars.

"During the days of great speculation by officers of railroads, they started the printing-presses and over-issued many shares above the authorized capital, causing panic and ruin. Subsequently, the registrar was established for the sole purpose of preventing such over-issue, assuring the investor that the certificate which he had purchased was one within the amount of the capital of the corporation. Now no stock can be listed by a corporation on the Stock Exchange without complying with its rules. These rules require the appointment of a registrar so as to prevent any over-issues.

"The form of contract with the registrar is as follows:—

"'You are hereby appointed Registrar of this Company to register its Capital Stock, consisting of _____ Shares, par value _____ dollars.'

"This is followed by a notice from the Stock Exchange authorizing the registrar to register a certain amount of shares of_____ corporation. The authority contained in the above merely prescribes a limited duty, which is: To record shares of stock to a certain amount. This service is recognized by all corporations, by the

transfer agent, and by the Stock Exchange. Where certificates are subsequently transferred and presented to the registrar with the new certificates, the registrar does not examine the indorsements or titles to these certificates. They agree that it is solely the duty of the transfer agent to make that examination — a duty for which the transfer agent is suitably paid, the compensation of the registrar being about one-half less." [1]

Although there are few decisions of the court to guide one to a definition of either the duties or the responsibilities of registrars, an examination of the causes leading to their appointment and of the practical duties they perform sustains the view quoted above. On no other assumption can the present position of the registrar well be explained or justified. Those registrars who hold the contrary opinion, that "the duties and liability of registrar do not differ in any marked degree from those of a transfer agent," [2] virtually duplicate the functions of the transfer agent. It has been suggested that the designation "agent to register transfers" would be safer and more correct than the word "registrar." [3] The latter name is, however, in common use and is gradually becoming better understood. Where there is a real risk of misinterpretation, the trust company, before accepting the position of registrar, can always resort to the simple expedient of executing a contract which specifically limits its liability.

When the trust company is appointed registrar of a stock, an account is opened in the record of corporate trusts. The abstract sheet should specify the title, classes of stock to be registered, the compensation to be received, and any other pertinent facts. The following sheet, ruled in ordinary ledger form, is headed with the trust number and title of the stock. A credit is made for the total authorized issue stated in shares. On the debit side a charge is made for the total number of shares registered as having been issued.

[1] "Duties and Responsibilities of a Registrar," E. C. Hebbard. *Trust Companies*, Vol. I, p. 989.

[2] "The Duties and Liabilities of Trust Companies acting as Transfer Agents and Registrars," Henry J. Bowdoin. Proceedings Trust Company Section, American Bankers' Association, 1900.

[3] "The Duties and Liabilities of Trust Companies acting as Transfer Agents and Registrars," Felix Rackermann. Proceedings Trust Company Section, American Bankers' Association, 1898.

These debit entries are initialled by the officer in charge of the department for the total number of shares issued and registered (the total original issue). The difference between the debit and credit sides represents the authorized stock not yet issued. This record is kept as a safeguard against an over-issue of stock. It can if preferred be kept on cards or in a small bound ledger. After the entire authorized issue is registered, new certificates are registered only as outstanding ones of an equal amount are cancelled.

Each certificate received by the registrar is examined and entered in the stock register before being signed or cancelled, as the case may be. A separate stock register book is used for each stock registered. Each page of the stock register is divided into two sections: that on the left, for certificates cancelled, contains columns for certificate numbers and number of shares; the right-hand section, for certificates registered, has columns for date of registry, name in which new stock is issued, certificate numbers, shares, and date of cancellation. Proof of the total issue is made by subtracting the totals of the "stock cancelled" columns from the totals of the "stock registered" columns, the balance being the number of shares outstanding. The total of outstanding shares can also be found by listing the open items in the "certificates registered" section.

If a company has more than one class of stock, a separate book is kept for each. For inactive issues, bound volumes of uniform size are satisfactory. For large and active issues, loose sheets should be used so that the work may be divided among a number of clerks. The register can be further divided into files for 100-share certificates, 10-share certificates, and certificates for odd lots. A binder should be used which permits the sheets to be readily inserted and removed.

In times of great stock market activity, the duties of the registrar may be very heavy and, as one day's work cannot go over to the next, it is necessary to have an effective organization and accurate and systematic methods.

TRANSFER AGENT

Title to certificates representing ownership in the capital stock of a corporation may be transferred on the books of the company by the owner in person or by a lawfully constituted attorney. A century

STOCK REGISTER

CERTIFICATES CANCELLED		CERTIFICATES REGISTERED					
Certificate No.	Shares	Date of Registry	Name	Certificate No.	Shares	Date of Cancellation	

ago a separate certificate was often issued for each share of stock. When the stock was sold, the owner usually made the transfer in person, and the original certificate was reissued with the purchaser's name indorsed upon it and attested by the proper officer. With the growth of stock companies and vastly increased dealings in their shares, it became necessary to facilitate the passing of title to stock. The response to this need has been the development of the transfer agency. Although many companies, even large corporations whose stock is actively dealt in, still transfer their own shares, it is now customary to appoint another responsible corporation — most often a trust company — to perform this duty. The trust company occupies the position of agent and as such does the work which would devolve upon the transfer clerk of the corporation if the transfers were made in its own office.

When no special contract is entered into, "it would seem generally safe to say that the transfer agent will remain free of any liability to its principal for damage or loss so long as the agent is guilty of no negligence. . . . It is not an insurer and is not to be held to infallibility. It must, however, be cautious and vigilant." [1] Even in the exercise of "caution and vigilance," moreover, many legal points are involved, and liability may be incurred through refusal to transfer, if it is later proved that the papers were in proper shape, so that here, as in other parts of a trust company's business, it is a safe rule to act only on advice of counsel when any doubt exists as to the legality or validity of a transfer.

The transfer agent if negligent may be liable not only to the principal for whom it acts, but also under certain circumstances to the purchasers and sellers of the shares which it transfers. When the transfer agent is in one state and the corporation for which it acts is chartered under the laws of another, new difficulties may arise from the variation in statutes and local practice. In doubtful cases, when a transfer is made by a thoroughly responsible individual, firm, or corporation, a bond of indemnity can sometimes be taken to protect the principal and agent from loss, and prevent a refusal to transfer on account of a trivial irregularity. The transfer agent

[1] "The Duties of Trust Companies acting as Transfer Agents and Registrars," Felix Rackermann. Proceedings Trust Company Section, American Bankers' Association, 1898.

assumes far more responsibility than does the registrar. This fact is recognized by the larger although still often inadequate compensation which is usually paid the transfer agent.

The great majority of transfers result from stock exchange sales, and in these cases the exchange rules as to "good deliveries" must be complied with.[1] Securities in the names of individuals in fiduciary capacities are not a "good delivery." The word "trustee," "executor," "guardian," etc., on the face of the certificate is notice to the transfer agent of the existence of a trust, and since the instrument or authority creating the trust may give no power of sale, the proper authority must be shown before a transfer can be made. Stock held in this way is often first transferred by the seller into the name of some individual or firm (for instance, the brokers commissioned to dispose of it), and is then offered for sale.

The New York Stock Exchange, before a stock can be listed, requires a statement of the location of the transfer office and names of the transfer agents, and, after the stock is listed, any change in the place of transfer must be approved by the proper committee of the Exchange.

Stock exchange rules also prescribe the kind of certificates which shall be used for listed stocks. They require the use of engraved plates and such combinations of color as will prevent counterfeiting through photographic or other processes. Stock certificates are bound in books, one to a page, and numbered in consecutive order. The officers of the issuing corporation sign the certificates and affix the company's seal, and then intrust them to the transfer agent. At the time of making a transfer the transfer agent enters on the certificate the name of the new stockholder, the number of shares, and the date of issue, signs the certificate, and then sends it to the registrar to be countersigned and registered. It is often stated on the face of the certificate that it is valid only when signed by the transfer agent and countersigned by the registrar. The stub gives the certificate number, the date and name in which it is issued, and the number of shares. When the certificate is delivered, a receipt may be taken on the stub. On the back of the certificate an irrevocable power of attorney is engraved, the following being the form in general use: —

[1] See Appendix. New York Stock Exchange, Rules for Delivery, p. 287.

NOTICE. — Signatures to all powers of attorney and also all powers of substitution must be guaranteed by party presenting certificates of stock for transfer.

For Value Received _____ hereby sell, assign, and transfer unto_____

_____

_____Shares of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint_____

_____Attorney to transfer the said stock on the Books of the within named Company with full power of substitution in the premises.

Dated_____19_____

_____

In presence of

_____

NOTICE. — The signature to this assignment must correspond in every particular with the name as written upon the face of the certificate.

When a certificate of stock is to be transferred, the owner signs the power of attorney, the signature is witnessed and is guaranteed by a member of the Stock Exchange. To complete the transfer, it is then necessary only to fill in the name of the purchaser and the name of the clerk who acts as attorney. If the name of the purchaser or his attorney is not inserted, the certificate is said to be in bearer form, which means that it is ready for transfer at any time and can pass from one owner to another by delivery of the certificate. In this way a certificate may pass through many hands without any transfers being made. When the name of the attorney, either a firm or an individual, has been filled in, but it is not desired to transfer the shares, a power of substitution in the following form is stamped on the back of the certificate and executed. This again makes the certificate a good delivery.

I (or We) hereby irrevocably constitute and appoint _____my (our) substitute to transfer the within named Stock under the foregoing Power of Attorney, with like Power of Substitution.

Dated_____19_____

_____

In presence of

_____

On presentation to the transfer agent, the power of attorney must be carefully scrutinized to see whether it has been properly executed, witnessed, and guaranteed, before the stock is transferred.

RECORD OF TRANSFERS OF _____ STOCK OF THE _____ BY THE MODERN TRUST COMPANY, TRANSFER AGENT.

The Undersigned, owners and holders of the Stock of the above mentioned Company, for value received, do hereby, by our respective attorneys, duly appointed, respectively assign said shares of such Capital Stock in the manner below set forth.

CERTIFICATES CANCELLED					CERTIFICATES ISSUED						
Number of Certificate	Number of Shares	Ledger Folio	In Name of	Attorney for Transfer	Date of Certificate	Number of Certificate	Number of Shares	Ledger Folio	In Name of	Address

It was a common practice to paste the cancelled certificates back in the books from which they were originally taken, the open items being represented by the stubs to which no certificates are attached. This is analogous to the almost forgotten custom of pasting cancelled checks in the books from which they were torn. Stamping the stubs with the date of cancellation, arranging the certificates chronologically as cancelled, those for each day in numerical order, and filing the packages by dates, is the more modern method. The other plan serves the purpose in the case of a very inactive stock.

In addition to the abstract sheet in the record of corporate trusts, the transfer agent's records are kept in stock transfer books and stock ledgers. Bound transfer books are used, a separate one being provided for each issue of stock. At the top of each page is the name of the corporation whose shares are transferred, followed by the statement, "The undersigned, owners and holders of stock of the above-mentioned company, for value received do hereby, by our respective attorneys, duly appointed, respectively assign said shares of such capital stock in the manner below set forth." The rest of the page is divided into two sections, — the left hand for certificates cancelled, and the right hand for certificates issued. The "cancelled" section contains columns for the numbers of the certificates, the number of shares represented by each, the ledger folio, names in which stock was registered, and a column in which the attorney making the transfer signs his name. The "certificates issued" section has columns for date, number of certificate, number of shares, ledger folio, name and address of stockholder. The total number of shares surrendered and cancelled agrees with the total number of shares issued. For an active stock, two sets of transfer books used on alternate days for making transfers, and postings to the stock ledgers, respectively, greatly facilitate the work of both transfer clerks and bookkeepers.

Another form of transfer book is the following: at the left of each right-hand page are columns headed ledger folio, certificate number, and shares. To the right of these columns under the words "for value received" the names on the certificates to be cancelled appear at the top of the page; below them the words "do hereby assign and transfer to," with the names into which the shares are transferred, and at the bottom of the page the name of the corporation and the signature of the stockholder or attorney who makes the transfer.

Each certificate cancelled and each one issued occupies one line, the necessary data for posting in the stock ledger appearing in the columns at the left of the page. The shares column is ruled across the middle and at the bottom to show the totals of shares cancelled and issued, which must agree. The left-hand page is ruled in four columns: placed to order of, shares, transfer and issue certificate to, and shares; and is used when certificates are placed to order and instructions for transfer are given later.

Either of the forms of transfer book described makes it possible to transfer into one certificate a number of certificates previously standing in different names, as all items which are to go to the same name can be grouped together. In the old form, in which a separate transfer was made by the attorney representing each owner, this could not be done, consequently a single individual buying from different sources would receive at least one certificate representing each lot. When the shares represented by part of a certificate are sold, the number to be transferred is stated in the power of attorney, and new certificates are issued covering the shares sold and the balance which is reissued without change of name. When an exchange of certificates in the same name is desired, splitting a larger certificate into several for smaller amounts or consolidating several small certificates into a large one, the title to the shares does not change. The transaction shows on both sides of the transfer book as an exchange of certificates only, and no power of attorney is required.

If sales are made to various purchasers of shares represented by a single certificate, the stock may be delivered "by transfer." In other words, the seller takes the certificate to the transfer agent and makes the necessary transfers, either transferring the stock directly into the names of the purchasers or else placing it to their order. In the latter case, the transfer agent does not issue new certificates until written instructions are received from the persons to whose order the stock was placed. If such instructions are not received within a fixed time or before the transfer books close for dividend or other purposes, the stock is transferred into the names of the firms or individuals to whose order it had been placed.

The stock ledger can be bound or loose-leaf. For active issues, the loose-leaf form is preferable. There is a separate ledger for each

company whose stock is transferred. The stockholder's name appears at the top of the page, and the ordinary form of stock ledger is used with a balance column in the centre. The left-hand side of the page shows certificates cancelled, and has columns for date, name, transfer folio, certificate numbers, and shares. The certificates issued are shown in a corresponding series of columns on the right-hand side of the page.

If shares are issued before they are fully paid, and instalments are called for from time to time, the face of the certificate bears the statement that the first instalment of a specified amount has been paid, and later payments are indorsed on the back of the certificate. For such shares the stock ledger requires the addition of money columns on both debit and credit sides, so that the paid-in value as well as the number of shares may show. In making transfers, both the number of shares and amount paid in are specified. It is not necessary to record the paid-in value when the stock is full paid or when there is no likelihood of further instalments being called for.

Postings are made from the transfer book on the day following that on which the transfer was made. When a loose-leaf stock ledger is used, it is advisable to make one person responsible for the volume and to require him to initial each sheet which is inserted. A transfer file is kept for closed accounts. The leaves are kept in alphabetical order both in the stock ledger and in the file. Dividend lists are taken off on the typewriter on sheets such as have already been described.[1] Instead of closing the transfer books while the dividend is being prepared, the custom is growing of declaring dividends payable to stockholders of record at the close of business on a fixed date some time in advance, the books being closed only over night. This obviates the many delays and annoyances incident to keeping the transfer books closed for any length of time, and is a practice heartily to be commended. It, however, necessitates having the stock records in such form that a trial balance can be rapidly taken off. Loose-leaf ledgers and plenty of clerical assistance make this a simple matter, as the ledger can be divided and settled by letters or other arbitrary divisions. If the trial balance cannot be taken off over night, no transfers are posted till it is completed.

[1] See p. 124.

The method of paying a dividend has already been described in connection with the duties of the fiscal agent.[1]

Registered bonds are transferred exactly like stock. Usually the same bonds are reissued after the change of ownership has been recorded on the back of the bonds. Sometimes a power of attorney is engraved on the back, as in the case of stock certificates, and a new bond is issued whenever a transfer is made. If the original bond is to be reissued, loose powers of attorney are used in making transfers. Both transfer books and ledgers for bond issues are kept in the same way as those for stocks, and the method of paying interest on registered bonds is similar to that of paying dividends.

When a stock is listed on the stock exchange of more than one city, a transfer office is maintained in each. If the stock ledgers are kept in one city as headquarters, the other transfer agents report daily all transfers they have made, furnishing copies of the transfer sheets from which postings are to be made in the stock ledgers, and sending the cancelled certificates to the headquarters city the following day. If stock ledgers are kept in each city, the transfer agents are required to report daily to each other the number of shares cancelled in a city other than that in which they were issued, and therefore discharged from the books of the issuing city. The better plan is to keep the stock ledgers in the headquarters city.

MANAGER OF UNDERWRITING SYNDICATES

"An important function of the private banker is 'placing' securities for corporations issuing them — that is, undertaking to dispose of an entire issue, or a specific amount of an issue, in the market upon certain terms agreed upon. Ordinarily the price is fixed by agreement with the officers of the corporation issuing its shares or bonds, either on its first organization or a reorganization, or on an increase of capital, and the banking house receives a commission on the amount disposed of by it. Sometimes the issue, or a certain portion of it, is underwritten by the banking house, which means that it obligates itself to dispose of the entire amount on the terms agreed upon, and what it fails to sell on those terms it is bound to take and pay for itself. In case of a large transaction of this kind, a syndicate

[1] See p. 124.

may be formed consisting of a number of bankers and banking houses, who agree together and with the other party concerned to carry the operation through. Each member of the syndicate binds himself to take a certain portion of the securities and to furnish his proportion of any cash that may be required in financing the operation, and for this service a certain percentage of the amount is to be paid as a commission. . . . This device has been resorted to largely in the consolidation of industrial concerns in those combinations known as 'trusts' and in floating new issues of railroad stocks or bonds. It transfers the risk from the corporations to the syndicates and concentrates and facilitates financial operations that are too large for one concern to handle." [1]

What is true of the private banker also applies to the trust company. It may become a member of underwriting syndicates, in which case its banking department only is concerned in the transaction. When, however, the trust company either organizes a syndicate itself or is chosen as manager, the machinery of the corporate trust department may be called into play. The manager of an underwriting syndicate is usually chosen from among its members to take charge of the details of the transaction. For this service a commission is paid. The members of the syndicate may be called on for cash representing the value of unsold securities, which are turned over to them, to be held subject to the call of the manager. Such "syndicated" securities cannot be disposed of until the termination of the underwriting agreement, the manager alone being empowered to trade in them for the benefit of the syndicate as a whole. When the syndicate is formed for the purchase and sale of bonds of recognized value, the issue is sometimes over-subscribed as soon as it is offered, and in this case the members may not be required to advance any money, and the manager's only duties are to pay for the securities, receive payment from the purchasers, and distribute profits to the members of the syndicate. To float an undesirable issue, stock jobbing operations are sometimes resorted to, and the help of various bankers and brokers is enlisted to hold or advance the price of the new securities. Needless to say, this is business in which a trust company should not engage.

The bookkeeping of syndicates consists of cash accounts repre-

[1] "The Modern Bank," Amos Kidder Fiske, p. 224 *et seq.*

senting the operations of the syndicate as a whole and the interest of each of its members. A record is also kept of the securities received and disposed of.

The operations of underwriting syndicates are usually carried on with the least possible amount of publicity, and the members are rarely given more than the barest statements of final results. If a syndicate is very successful, partial distributions of profits are made from time to time. When the securities have all been sold, or the syndicate has been dissolved through the expiration of a time limit, the manager closes the accounts and distributes the final profits. If the syndicate has been unsuccessful, its termination may leave the members in possession of securities which cost them more than the market value and which cannot be disposed of except at a loss.

DEPOSITARY UNDER PLANS OF REORGANIZATION

While in theory the railroad mortgage is similar to that on the smallest dwelling house, the analogy ends, in practice, when a default occurs. With the dwelling house, the lender forecloses the mortgage and effects the sale of the property. In the case of a railroad the value of the security depends on the system remaining intact. When interest defaults, a committee representing the security holders is usually formed and a plan of reorganization is agreed upon in order to prevent the disintegration of the system by foreclosure of the mortgage or mortgages secured on its component parts.

The reorganization committee, either before or after formulating a plan for the rehabilitation of the property, calls for the deposit of the defaulted securities, most frequently with some trust company designated as depositary. In exchange for the securities, temporary receipts are given, good for a limited number of days only, and these are later exchanged for the depositary's engraved certificates of deposit which are negotiable on the stock exchange.

Trust companies usually have on hand a supply of such engraved certificates, on which the necessary details of each reorganization can be printed. The certificate specifies the kind and value of the security deposited and the terms under which the certificate is issued. It states that the trust company, as depositary under the plan of reorganization formulated by a committee whose names are recited,

holds the securities in accordance with the terms of an agreement which is assented to by the security holders by the deposit of their stocks or bonds and acceptance of the certificates of deposit.

Reorganizations may be made necessary either by a corporation's inability to meet fixed charges or by the consolidation of several corporations into a single company. In either case, the duty of the trust company acting as depositary is the same. The securities are virtually held in escrow, the reorganization committee and the bondholders being the other parties to the agreement.

Reorganization committees are usually formed of individuals who are more or less directly interested in the securities affected by the default and whose names are a guarantee of good faith. The initiative in the formation of such protective committees is usually taken by the largest security holders, and the membership is indicative of the interests represented. The scheme of reorganization aims to bring the fixed charges safely within the earning power of the corporation and to determine equitably the rights and claims of all security holders. As important members of reorganization committees, the officers of a trust company are often called on to solve such problems.

The corporate trust department is interested not so much in formulating plans of reorganization as in carrying out their provisions. For the protection of security holders prompt action may be necessary, and the mere physical work of receiving deposits is often very great. Sometimes the depositary gives notice that only a fixed number of lots or "schedules" of securities will be received each day. To expedite matters, a cursory examination of the securities is made and the so-called five-day receipt is given which permits a more careful and thorough examination before the certificate of deposit is issued. Just as much care is taken in receiving stocks and bonds under plans of reorganization as when they are presented for transfer, because the title to the securities vests in the committee in accordance with the terms of the plan of reorganization, and in case of foreclosure and the issue of new securities in lieu of those surrendered, the transfers must actually be made so as to carry out the required legal formalities.

As each lot of securities is received it is listed and given an accession number corresponding to the number of the temporary receipt.

The securities forming each schedule are kept together, their final disposition depending on the provisions of the plan under which they are received. To be negotiable the engraved certificates of deposit are often required by stock exchange rules to be registered like certificates of stock.

When assessments are called for, or distributions of principal or interest are made, the certificates of deposit are presented at the office of the trust company to have the proper indorsements stamped upon them. On the successful carrying through of the plan of reorganization, the certificates of deposit are returned to the trust company and the new securities are delivered in their place.

For each reorganization, separate books are used. The reorganization record bears the title of the account and of the trust company and the capacity in which it acts. The left-hand page contains columns for the date of each deposit, the number of the certificate of deposit, the name of the owner, and the various classes of securities deposited. On the right-hand page are columns headed by the titles of the new securities to be given in exchange and one in which receipts may be taken when the securities are actually delivered. The book is printed and ruled to suit the requirements of each reorganization. The footings of the columns are used to prove the correctness of the distributions under each schedule. When a certificate of deposit is cancelled and one or more are issued in its place, the schedule represented by the cancelled certificate is ruled out and the new ones are entered. Assessments or distributions of cash or securities are entered in the reorganization record, and the certificates of deposit are appropriately stamped.

Each plan of reorganization may need the elaboration of further details to meet its special requirements, and before the work is completed the trust company acting as depositary may be retained in other capacities, such as trustee, transfer agent, or registrar.

ASSIGNEE AND RECEIVER

When the affairs of a firm or corporation are placed in the care of a trust company as the result of insolvency or any other cause, the corporate trust department takes charge of the business. The appointment of the trust company may be made at the instance of the owners of the business who wish to protect their property, or at

the instance of creditors who wish to protect their interests. It may be effected by deed of assignment, in which case the powers and duties of the trust company so appointed assignee are governed and regulated by, and in accordance with, the terms of such deed. If the business is to be wound up, the assignee's duties usually consist of collecting the debts due and collectible, and requiring creditors to prove their claims, which are scheduled for payment and met and paid in whole or ratably in part as the available assets permit. An assignee is held to strict accountability, and not only must use the best business judgment, but must act in strict compliance with legal requirements, frequently securing an opinion of counsel, or, in the case of certain acts, an order of court. As the expert knowledge of those who have been conducting the business is often of value, it is not unusual for the assignee to retain the services of such employees as are needed, and frequently a representative of a firm which is in liquidation is made a co-assignee.

What has been said of the requirements of the trust company as assignee applies in part to the requirements imposed upon it as receiver. The term "receiver," however, is usually confined in its application to an appointee of a court. The object of a receivership is usually to tide an embarrassed enterprise over a period of difficulty. The business must be conducted intelligently, and needed capital sometimes supplied until times of greater prosperity or the successful carrying out of a plan of reorganization puts it on a solvent basis and makes possible the discharge of the receiver and the return of the property to its owners. The receiver is a ministerial officer of the appointing court, with no powers but those conferred upon it by such court. A trust company acting as receiver is better able than an individual to furnish additional capital, if amply secured, and thus successfully to meet the difficulties which withdrawal of credit and restricted capital have temporarily brought upon an otherwise prosperous business. The courts authorize the issue of receivers' certificates to provide funds for purchase of equipment and the proper maintenance of the property and conduct of the business when the creditors are benefited by such expenditures. Such certificates may be made a first lien on all assets, taking precedence even of mortgages and other secured obligations. The receiver thus secures the capital necessary to make the property

more productive and to secure the largest return from the business. In some trust companies a small committee of the board of directors is appointed to act with the officer in charge of the affairs of the involved business, and where technical knowledge is required, the services of experts may also be secured.

A set of double entry books is opened for each assigneeship and receivership, the controlling account alone appearing in the general books of the corporate trust department. According to the nature of the case, the business may be transacted at the office of the trust company or at that of the insolvent company.

AGENT

Trust companies as agent often take up lines of business which they either cannot or would not engage in on their own account. Thus, a trust company can act as agent for fire or life insurance companies, for water, gas, and other public service corporations. In new communities and where it is difficult to find responsible representatives, the trust company can often render efficient service and secure a steady income without risk by assuming agencies of various sorts. The books and methods employed depend on the duties to be performed, but conform as nearly as possible to the general system in use, with such auxiliary records as may be needed in each case.

ACCOUNTS

Whether there be only one trust department or two, the bookkeeping for both corporate and individual trusts can usually be combined. A single general ledger, journal, and cash book are used, and in these books the transactions of the two departments are separated by having the necessary controlling accounts for each. The same division is maintained on the balance sheets.

Whatever the capacity in which the trust department acts, each corporate account, like an individual trust, when received is given an accession number by which it is identified. The record of corporate trusts, which corresponds to the record of individual trusts,[1] contains an abstract sheet showing the details of each appointment, followed by other sheets on which are shown the securities held or

[1] For Record of Individual Trusts, see p. 188.

such other facts as may result from the character of the account. When for convenience all trusteeships of corporation mortgages are grouped in a special volume, an abstract sheet should be inserted in its numerical place in the general record of corporate trusts, giving the title of the account and referring for further information to the special record of corporation mortgages.

A blank form of abstract sheet is used, or a series of printed forms may be prepared to meet the requirements of the various capacities in which the corporate trust department acts. The form adapted to trusteeships has already been described,[1] as well as the sheets which follow for records of bonds received, certified, and delivered, and of bonds paid, cancelled, and cremated. For investments, sheets similar to those in the record of individual trusts are used.

The corporate trust ledger is exactly like the individual trust ledger, and where there is only one trust department the accounts are kept in the same volume.[2]

COMPENSATION

When acting as trustee under corporation mortgages, a definite charge may be made for accepting the trust, and a fixed amount per annum thereafter for paying coupons and performing other duties. For the certification of bonds it is usual to charge fifty cents per bond in the case of large issues, and one dollar for small issues. The figures, however, vary in different places. The charge for certifying the bonds may be the only one, although an additional charge is usually made for counsel fees. In case of default and consequent foreclosure of the mortgage, extra payment is made to the trustee covering all services incident to the foreclosure.

For the disbursement of sinking funds, interest, or coupons, the temporary use of the money may be considered adequate compensation, if the amount involved is large. A commission on the sum distributed or a fixed amount is charged when acting as fiscal agent, apart from duties in other capacities. For acting as registrar or as transfer agent it is usual to make a fixed charge per annum, based on the amount of labor involved. The transfer agent is usually paid about twice as much as the registrar. Compensation for acting as

[1] See p. 117. [2] For Individual Trust Ledger, see p. 198.

manager of an underwriting syndicate may be a fixed sum or a commission, according to the provisions of the underwriting agreement. For acting as depositary under plans of reorganization, assignee, or receiver, a lump sum is usually paid covering all services. Agency work of various sorts is paid for in accordance with the usual practice in the business which is undertaken; a fixed sum, or a fixed sum and a commission, or a commission only, may be received.

The trust company is in a position to render valuable, and often indispensable, aid to its corporate clients. Large amounts being involved, the great railroad and industrial corporations are willing to pay well for such services. Corporate trust business has, consequently, been a profitable field for the trust companies.

CHAPTER VII

INDIVIDUAL TRUST DEPARTMENT

GENERAL ORGANIZATION

THE cardinal principle of the trust department is its separation from the company's own affairs. A distinct organization is therefore maintained for the conduct of trust business, the capital and surplus of the company supplying a guarantee that its obligations in a fiduciary capacity will be properly fulfilled. Whatever the difference in organization, functions, or management, trust companies in every part of the country unite on this general principle of not mingling their own affairs with their trust accounts. In many companies the trust department occupies entirely separate quarters, and has no connection with the banking department except that of depositor. Expenses and earnings are separately shown, and the situation resolves itself into two distinct businesses conducted by the same president and directors under the authority of a single charter.

The general organization of the trust department provides for the care of the different kinds of securities which are held, the making of investments, the receipt and disbursement of funds, and the proper accounting to the courts and the parties in interest.

In a small or newly formed company the entire business of the individual trust department is usually in the hands of a few employees who attend to all transactions affecting the estates in their control. As the department grows, however, greater specialization becomes necessary, and in the largest companies separate divisions are organized for each part of the business.

The plan of organization should always be one which permits of expansion. A single book in the small company is often the nucleus of the division which will later be evolved.

The trust records should conform as nearly as possible to the company's general system of bookkeeping. A frequent statutory re-

quirement is that trust funds and investments shall be kept separate and apart from the assets of the company, and that all investments made in a fiduciary capacity shall be so designated as to show clearly the trust or estate to which each investment belongs. This is a matter of careful record and description, but does not necessarily involve the actual separation of the securities in different safe deposit boxes nor of the accounts in a series of bound ledgers. Still less need one follow the example of a recently organized trust company where the bank examiner on his first visit asked for the balance of uninvested trust funds. To his amazement he was taken to the vault and shown a row of little pasteboard boxes in which the conscientious trust officer was keeping the uninvested balances in cash, literally "separate and apart," to comply with the provisions of law!

APPOINTMENT

The capacity in which the individual trust department acts depends upon the nature of the company's appointment, and the obligations assumed vary correspondingly. Unlike the banking and safe deposit departments, which stand in much the same relation to all their customers, the trust department plays many rôles and cares for property of every sort, both real and personal. The functions of this department have already been described.[1] The method of appointment and subsequent procedure will here be briefly noted.

When a client wishes to name the trust company as his executor, it is customary to have its counsel or legal officer draw the will, no charge being made for this service nor for the safe-keeping of the document during the life of the testator. Laymen should be dissuaded from drawing their own wills, and urged always to secure legal advice so that errors may be rectified before it is too late. If the will is not already in the possession of the executor named in the document, it should be delivered to the corporation or individual so designated, or to the proper officer of the probate court, immediately on the death of the testator. Wills are often left in safe deposit boxes or in the hands of counsel. If a decedent or a decedent's family is represented by a lawyer who brings the business to a trust company, it is usual for the company to retain him as counsel for the

[1] See p. 8.

estate. When the testator's personal counsel has drawn the will, his knowledge of the testator's private affairs is likely to prove of value in administering the estate. The first duty of the company when named as executor is to have the will probated. The document is deposited with the register of wills, or officer of a court having jurisdiction in the matter of decedents' estates, known in different states as the probate, surrogate's, or orphans' court. After the will is proved, letters testamentary, constituting the executor's authority to act, are granted and the appointment is advertised, debtors to the estate being notified that payment is due, and all persons who have claims against the estate being called upon to present them to the executor. Trust companies are not usually required to give bonds to secure the faithful performance of their duties whether acting as executor, administrator, or trustee, their capital and surplus being considered a sufficient guarantee. In some places a special deposit of securities is made by these companies with the state authorities as an additional guarantee. One or more individuals are often named as co-executors with a trust company. In such cases the company generally takes charge of the securities, and does most if not all of the detail work, the other executors being consulted in matters of judgment, joining in the execution of documents when necessary, and sharing the commissions. Immediately on securing possession of the decedent's property an inventory is made, and usually an appraisement of the personal property. If the funds are sufficient, the executor settles the debts of the estate as promptly as possible. Some debts are commonly regarded by the law as preferred, — as funeral expenses, bills for physician's services rendered during the decedent's last illness, — and these, where there are sufficient funds, are paid at once. In the case of other debts and claims it is not unusual for the executor to wait until the statutory period has elapsed during which claims may be presented, in order that all possible claimants may be protected. When necessary the executor sells securities or other personal property in order to obtain the requisite cash. Collateral inheritance and other taxes are paid as promptly as practicable to secure the advantage of any discounts allowable and to avoid the penalties imposed for delay. The payment of legacies follows, in conformity with the provisions of the will. To be properly protected the executor should, as a rule, defer the payment of legacies until such time as an account

may be filed and adjudicated by the proper court. Certificates of the appointment of the executor, obtained from the proper official or probate court, are used as evidence of authority to perform all acts necessary in the settlement of the estate. At the proper time, usually one year after the will is proved, the executor files an account for audit by the probate court. After audit the adjudication of the court is set forth in a decree passing upon the acts performed and directing such further acts as may be necessary on the part of the executor. The executor may account once or more often, according to the nature of the estate and the requirements of the beneficiaries and creditors. After settlement of the final account the executor, upon distribution of the balances remaining in his hands and payment of the court costs, is discharged and relieved from further responsibility.

The formal duties of an administrator are almost identical with those of an executor. The power of appointment vests in the register of wills or official of the court having jurisdiction in the matter, in a manner which is usually prescribed by statute. When an individual dies intestate, or leaves a will in which no executor is named, or when an executor declines to act, or dies before completing his duties as such, an administrator is appointed to settle the estate. If there is a will, the property is divided according to its provisions; otherwise the order of inheritance is fixed by the intestate laws of the state, succession being based on relationship to the decedent, the wife and children having first right to the estate. The statutes of the various states differ in minor particulars, but the general procedure in administering estates is very similar. After appointment the administrator qualifies, and, if an individual, gives bonds for the faithful performance of his duties. The administrator at once takes charge of the estate, and proceeds to administer it as in the case of an executorship, calling by advertisement for the presentation of claims, filing an inventory and appraisement, selling securities when necessary, paying debts, taxes, and legacies, and accounting to the court. The final distribution of the estate follows, with the discharge of the administrator on the satisfactory completion of his duties.

Appointment as trustee originates in various ways. When trusts are made under a will, the property is received from the executor on the settlement of the estate, and is held in accordance with the terms

of the will for such purposes as it designates. The same corporation or individual is frequently, though not necessarily, named as executor and testamentary trustee, and in this case the property is first held in the former capacity and vests in the trustee on settlement of his account as executor. "The precise moment when his duties as an executor come to an end, and his duties as a trustee begin, is hard to ascertain. . . . The late Sir John Wickens, a very nice observer, used to tell his pupils that it invariably took place in the dead hours of the night, but so close an investigation is to be deprecated." [1] When no appointment is made by will or the trustee named does not or cannot act, and the will makes no provision for appointing a substitute, the court having jurisdiction will usually fill the vacancy on the application of those interested. All trusts under will are subject to the jurisdiction of the proper court, to which accounting is made from time to time during the life of the trust or at all events upon its termination. The title to real estate vests in the trustee directly under the provisions of the will; that to personal property, on its transfer by the executor to the trustee. When there are several trustees, their authority must usually, unless the instrument creating the trust provides otherwise, be exercised jointly, unlike that of co-executors, each one of whom is vested with full powers and is competent to act independently. Individual trustees appointed by the courts must, as a rule, give bonds, which are not required of corporate trustees. The two interests in the trust estate are those of the trustee in whom the title to the property vests, and of the beneficiary for whom the trust is created, and who can compel the trustee to carry out its provisions. When appointment is made by deed, the trustee is governed by the terms of the agreement between the maker of the trust and itself. Such trust deeds may have all sorts of objects — from the wish to be relieved of responsibility in the care of property, to the making of a marriage settlement, or the setting aside of funds for charity or for support of those incompetent to manage their own affairs. Trusts under deed may be irrevocable or may contain a clause making them subject to amendment or termination at pleasure. They may be made for definite periods or to terminate on the occurrence of some event such as the death of a beneficiary. In the United States, except in the case of trusts for charities, trusts in perpetuity are prohibited by law.

[1] "The Duties and Liabilities of Trustees," Augustine Birrell, p. 13.

The liabilities of a guardian are very similar to those assumed in the exercise of the powers already described. A trust company may be guardian of the person or estate of the minor, or of both. The guardian may be appointed by will, by deed, or by the court. The guardianship terminates on the ward's becoming of age. The principal duties of a guardian of the estate are to make an inventory of the property of the ward, make investments according to law, keep accurate records of all receipts and disbursements, — if necessary obtaining instructions from the court as to the provisions it shall make for the education and support of the minor, — and on the latter's coming of age to render a final account for audit and approval, and to deliver the ward's estate in accordance with the decree of court.

The offices of curator, committee, and conservator are much like that of guardian. The life of the trust varies according to the circumstances of each case. Thus a trust for a person of unsound mind ends on the beneficiary's regaining his reason.

When the trust company acts as agent and attorney, the title to the property held or managed does not vest in it as in a trustee. Its appointment is derived from a simple request or agreement to perform certain definite acts. This authority, which can be revoked at any time, may be in the form of a letter or a general or special power of attorney. Under a general power of attorney, authority is given to manage real estate, collect rents and other income and principal moneys, buy and sell securities, indorse checks, vote at meetings of corporations, sue and be sued — in short, to act generally on behalf of the principal or person represented. A special power is limited to a particular act or acts. If the power of attorney is to be recorded, — as a power to sell real estate or to satisfy a mortgage, — or if certified copies are likely to be needed, it must be properly acknowledged in accordance with the requirements of the recording statutes.

As assignee a trust company usually acts under appointment made by a debtor who by such action vacates the title to his property for the benefit of his creditors. The authority to act as receiver is derived from the court to which application has been made by a debtor, or by creditors because of an embarrassed condition of the debtor's affairs. In both cases the duty of the trust company is to take charge of and manage the property in the interest of the creditors;

in the case of a business it must carry it on until its difficulties are tided over, or else wind up its affairs.

An escrow may be defined as an instrument under seal placed in the hands of a third person, to be delivered to the grantee upon the happening of certain conditions, upon which final delivery only the transmission of title is complete. As custodian or depositary the trust company accepts escrows, taking its authority in the form of written instructions in which all the parties in interest join. No responsibility is assumed beyond the care of the deed or instrument held, and its delivery in accordance with the instructions received.

CARE OF STOCKS AND BONDS

Upon the trust officer devolves the charge of all securities taken for trust accounts. For every item received he, or an assistant to whom he has delegated sufficient authority, should give a receipt describing both the security and the terms under which it is to be held.

When the title to stocks and registered bonds vests in the trust company in some fiduciary capacity, they should be promptly transferred, if this has not been done before they are received. Sometimes the securities of an estate have been allowed to remain in the name of deceased relatives or other persons from whom they have been received or inherited, and if the legal representatives of the original owner have also died, transfers cannot be made until new letters of administration have been taken out. All such tangles should be straightened out while the facts of the case are fresh, and before there can be any danger of loss through inability to make a transfer.

The record of individual trusts should give the exact wording to be used in registration, and care should be taken that all securities of the same estate are registered alike. After all necessary transfers have been made, and the stocks and bonds have been properly entered in the record of trust securities received and the record of individual trusts, they are ready to be indexed and put away in the vault.

The question of the care of, and access to, trust securities is one which confronts the management of every trust company and has been solved in many ways, from the extreme of carelessness where no one is responsible and the keys are freely handed about, to the

extreme of caution thus impressively stated: "The securities of each trust are kept separately in safe deposit boxes to which access may be had only by an assistant secretary accompanied by a vice-president, or by two vice-presidents, and no securities may be taken from the boxes except on a requisition of the trust department approved by a vice-president." The ideal is to get the greatest possible degree of safety with the least possible amount of red tape. The client likes to know that his securities are absolutely safe, but he also likes to know that they can be quickly found and taken out when needed, and if he realizes that both the capital and surplus of the company are liable for loss occasioned by the negligence of its employees, he will be quite as much impressed by simple and accurate methods as by a ponderous system which breaks down in an emergency.

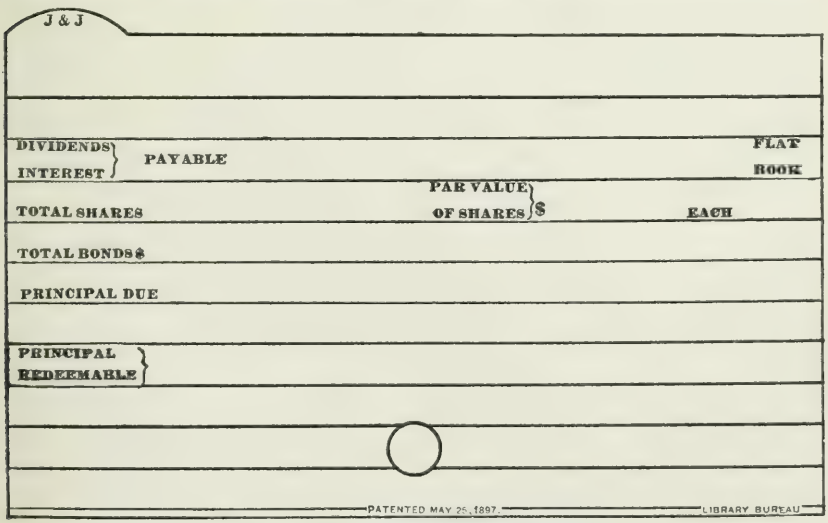
In a small business where other safeguards are not practicable, joint access to the securities by two officers is usually advisable; but whenever the size of the company will warrant it, one officer should be put in charge of the trust securities, and be held personally responsible for their receipt, care, and disposition. He should be subordinate to the head of the trust department and should be appointed only after his fitness has been thoroughly proved. Independent records kept in the trust department form the basis for examination of his work. An adequate salary paid to such an officer removes a fruitful source of temptation and is money well invested. The sum for which he is bonded in a surety company, although probably insignificant compared with the total value of the securities in his care, should approximate the amount which he could readily dispose of in case of dishonesty. This officer should have no authority to execute transfers of securities on behalf of the company, examinations should be made at frequent intervals and without notice, and in his absence or disability his duties should devolve on a fellow-officer designated for the purpose. The board of directors should decide to which officers or other employees he may deliver securities, and in no case should he be permitted to make deliveries to any other individuals, whether in the employ of the company or not, unless so directed in writing by one of those authorized to make such requisition. The giving and taking of receipts should, without exception, be insisted on. This officer can take charge of cutting and collecting coupons, and can also watch for bond calls, and keep in

touch with the values of the securities which pass through his hands. The position is one of great responsibility and of considerable interest, for although it does not bring the holder into relation with the outside public, it gives him a knowledge of securities and forms an excellent basis for future advancement. Even in a trust company, somebody must finally be trusted, and whether the business be large or small, the directors should see to it that an adequate and adaptable system is introduced, embodying the separation of the care of records and securities and the principle of personal responsibility.

In the absence of the officer in charge of the trust securities, joint access should be required on the part of two other officers, one of whom keeps a record of the securities which are removed in his presence, while the other takes a receipt on their delivery. Later the officer responsible for the vault compares the receipts with the list. He holds a master key to the vault, while the two officers who act in his absence hold keys which must both be used to open the lock, thus preventing access by either one alone.

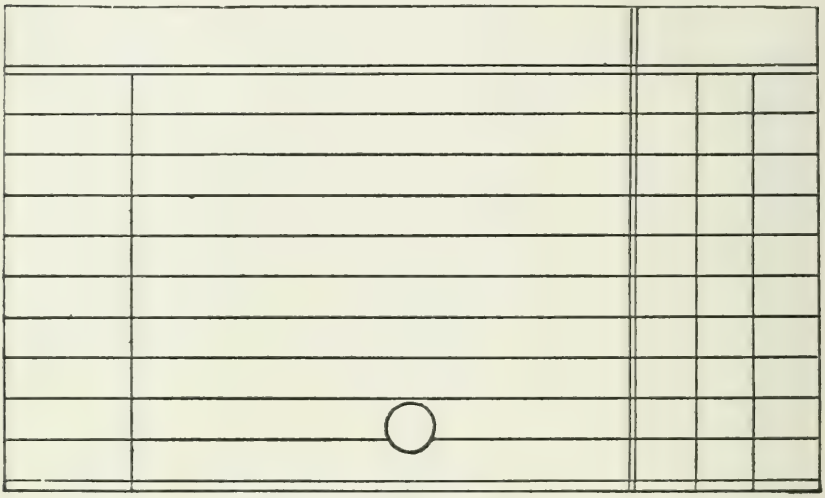
INDEX OF SECURITIES

A complete record of all securities held for trust accounts is kept in a card index. The main divisions of the index are: coupon bonds, stocks, registered loans, and miscellaneous securities.



INDEX OF SECURITIES — BLUE CARD

Under these divisions blue cards describing the security are arranged alphabetically, and behind each blue card is a series of white cards showing the separate holdings arranged alphabetically as to the name of the trust.



INDEX OF SECURITIES — WHITE CARD

The blue cards have projecting tabs which are cut in eight positions to show the various interest and dividend periods. Commencing at the left they are as follows: —

"J. & J." for January and July
"F. & A." for February and August
"M. & S." for March and September
"A. & O." for April and October
"M. & N." for May and November
"J. & D." for June and December
"Irreg." for Irregular
Blank for non-interest and non-dividend-paying securities

When coupons, interest, or dividends are payable quarterly, two blue cards are used. The card with a tab showing the earliest calendar month in which interest is paid comes first, and is followed by another indicating the later interest or dividend period.

In the coupon bond section the blue card gives the title of the security, the interest periods, date of maturity, provisions as to redemption, and other information if needed. The aggregate par value of all the individual holdings may also be noted in pencil on the blue card. On the white cards which follow, the top line is used for the title of the security, much abbreviated, and the first letters of the

months when interest is paid. On the second line appear the number and name of the account and the par value of its holding.

The same blue cards are used for coupon bonds, stocks, and registered loans.

In the case of stocks, the title of the company, the par value of the shares, the dividend periods, how collected, and the total of the various holdings, are written on the blue cards. The back of the blue card is ruled for a record of the date and rate of dividends, and the way in which they are collected. The card is ruled in four sets of two vertical columns. In each set one column is for the date, and the other for the amount or rate of each dividend payment. Ten horizontal lines would give space for forty dividend periods. A diagonal line across each space, or eight sets of vertical columns instead of four, would double the capacity of the card. The white cards show the number of shares held by each trust.

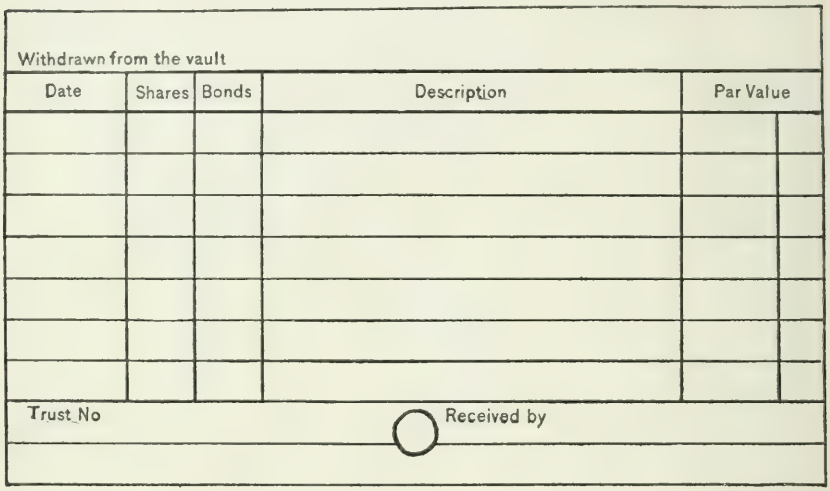
With registered bonds, the title of the security, the interest periods, date of maturity, provisions as to redemption, and total amount held, are noted on the blue card as in the case of coupon bonds. On the back of the card the date and rate of interest payments are shown, and the method of their collection, exactly as in the record of stock dividends. The white cards give the par value of each estate's holding.

The miscellaneous securities section is an exception to the others in that it is arranged alphabetically according to the name of the account. The white cards only are used, headed by the number and name of the trust, while the rest of the card is given up to a description of the various items. Among these will be found notes, due bills, judgments, life insurance policies, jewellery, membership certificates, deeds for pews, and a miscellaneous assortment of evidences of past, present, or future value, which cannot be classified in any other way.

Securities of no value are recorded on buff cards of the same ruling as the white cards. The worthless securities themselves can for convenience be kept separately, so as to save time and labor at audits and in the transaction of current business. The record should, however, be kept in its proper place in the index, irrespective of the question of value. The color of the card at once indicates both the location and the character of the security.

Whenever a security is withdrawn from the vault, a receipt is

taken. The receipt card shows the purpose for which withdrawn, the date, description and par value of the security, the number and name of the account to which it belongs, and the signature of the person to whom it was delivered. These cards are filed together in


Withdrawn from the vault

Date	Shares	Bonds	Description	Par Value	

Trust No

Received by

the index case, alphabetically, according to the title of the security. When all the securities of an account or a large number of them are withdrawn, it may, however, be easier to put several items on one card, and these receipts may be arranged according to the names of the trusts, in front of the others in the receipt index. At the time the receipt card is placed in the index, the card representing the holding of the account from which the securities have been taken is marked "out." If only part of the holding has been withdrawn, the amount taken is also noted in pencil. Thus the general index shows at all times what securities, for which the company is still liable, are in process of sale or for other reasons are out of the vault. When securities which have been withdrawn temporarily are returned, the receipt card is destroyed and the word "out" is erased from the index card. These appear as "returns" in the record of trust securities received. When securities have been sold or delivered, and the proper entries have been made in the trust ledger, the receipt card and the corresponding card in the securities index are destroyed, or if only part of the holding has been disposed of, the amount is

deducted and the balance shown on the security card. The securities delivered book is the authority for these entries.[1]

A maturity index is also kept, in which cards bearing the title and date of maturity of each bond issue are arranged chronologically. At the front of the index are cards representing overdue securities, then the securities falling due during the next twelve months, separated by guide cards. As each month passes, the guide card is moved back to the corresponding month of the following year. In this way the securities falling due at any time within a year are easily found. The total holdings of all securities maturing within six months are shown on the maturity index, so that new investments may be secured in good time or extension provisions be taken advantage of. The individual holdings are found by reference to the index of securities.

ARRANGEMENT OF SECURITIES IN VAULT

Many companies keep the securities of each estate in separate locked safe deposit boxes, or in boxes or envelopes in a special vault. An equally safe but less cumbersome system is based on the plan of keeping all securities flat in portfolios, and the holdings of each trust account distinctly marked with its number and name. The stocks, registered loans, and miscellaneous items belonging to each trust are kept together, as all the securities of one trust are more often wanted than are all the holdings of one security. The coupon bonds, on the other hand, are arranged primarily as to interest periods, and then as to security and trust account because all the holdings of each issue have to be taken out at least twice a year for the purpose of cutting coupons.

The stocks, miscellaneous securities, and registered loans are kept in portfolios made of two sheets of tar board, each $12\frac{1}{2}'' \times 19''$. The estates are arranged in numerical order, each one separated from the next by a loose manila sheet $12'' \times 18\frac{1}{2}''$, at the lower right-hand corner of which is the number and name of the account. The registration of stocks and loans shows the ownership of each security, and in addition the trust number is written in ink in the upper right-hand corner of each certificate. In each account, each class

[1] See p. 189.

of securities is arranged alphabetically, first stocks, then miscellaneous securities, then registered bonds. One portfolio usually holds a number of trusts, although a very large estate may need several portfolios. The portfolios are held together by loose straps of webbing with ordinary buckles. So as to be readily accessible, they are kept on separate steel shelves $2\frac{3}{4}''$ apart. A label on the outside of the closet door gives the numbers of the trusts within, and on the inside of the door is another label showing the numbers of the trust accounts contained in each portfolio.

Securities of no value are kept in a separate set of portfolios, the arrangement being identical with that just described except that worthless coupon bonds are kept with the other "bad" securities. As apparently worthless securities occasionally develop unexpected value, it is necessary to preserve the certificates, and keep accurate records of them. For instance, a few years ago when the electric railway was introduced, many worthless turnpike stocks became suddenly valuable because the electric railway companies, not possessing the right of eminent domain like the railroads, were obliged in many instances to purchase from the turnpike companies the rights of way still owned by these old corporations.

The arrangement of the coupon bonds in the vault is first as to interest periods. On account of the different sizes of shelf and portfolio that are needed, each interest period is subdivided into flat and book bonds. Under these subdivisions the bonds are arranged alphabetically by the name of the security. Flat bonds have bond and coupons printed or engraved on the same large sheet. In book bonds the bond and the coupons are on separate smaller sheets bound together.

All coupon bonds are spread out in portfolios of loose tar boards with manila sheets to separate the various issues. For flat bonds the tar boards are $19'' \times 28''$ and the manila sheets $18'' \times 27''$. The portfolios are large, and it is convenient to have holes punched at one edge of the tar boards and manila sheets, and the sheets eyeleted, so that a tape or cord may be used as a back to hold the papers in position when the leaves are turned. Straps of webbing hold each portfolio together. Each manila sheet is numbered consecutively, and on the outside of the portfolio is pasted an alphabetical list of the securities, showing the number of the sheet on which the bonds

will be found. All the coupon bonds of the same issue are together and are arranged in order of trust numbers, the estate with the lowest number being on the top of the pile. As no writing is allowed on coupon bonds, the ownership is indicated by a small label gummed at the upper edge and attached to one corner of the back of the bond.

COUPON BOND LABEL

TRUST NO. $
BONDS OF
JANUARY & JULY
OWNER

The label gives the name of the security, number of bonds, par value, interest period, and number and name of the trust. If a trust account owns more than one bond of a kind, the label is attached to the uppermost bond, and the others have the number of the trust pencilled at the same point on the margin. Each bond is recorded by its number in the record of individual trusts, and thus a perfect system of identification of ownership is established. Book coupon bonds are cared for exactly like the flat bonds, except that the size of the tar boards is $10\frac{1}{2}'' \times 15\frac{1}{2}''$, and of the manila sheets $10'' \times 14\frac{1}{2}''$. To make the portfolios of uniform shape, the bonds are piled, some with their bindings turned to one end of the portfolio and some to the other. Owing to the size and weight of the portfolios, each one should be kept on a roller shelf. The shelves should be $4\frac{1}{2}''$ apart for flat portfolios and $6''$ apart for the book portfolios. On the outside of each closet door is a label showing the interest period of the bonds, and whether flat or book. Inside the door, a label gives the alphabetical divisions contained in each portfolio. As a help in finding coupon bonds it may be convenient to keep in the vault a small card index arranged alphabetically under the names of the securities, showing to which interest periods they belong and whether they are flat or book bonds.

The arrangement which has been described, although a departure from the traditional method, has been proved by experience to be thoroughly satisfactory. The portfolios lend themselves readily to

expansion or contraction, and even when readjustments have to be made, owing to the receipt of large numbers of new securities or the delivery of old ones, the process is a simple one. No more space is needed, sometimes even less, than under the old-fashioned systems. A security is always quickly and easily found because there is only one place in the vault where it can belong, and the papers are kept in far better condition than when folded. In the cutting of coupons alone, an immense amount of time and trouble is saved if the bonds do not have to be unfolded or unrolled. Examination of assets is also greatly facilitated. The system can be adapted to the needs of the smallest as well as of the largest company.

COLLECTION OF INTEREST AND DIVIDENDS

The index of securities is the record from which data are procured for the collection and credit of interest receipts.

Coupons are promises to pay to the bearer on a given date a specified sum representing the amount of interest then due on the bonds to which they are attached. Coupon bonds can generally be registered as to principal if the owner so desires, and occasionally the coupons are payable only to the order of the registered owner of the bond.

As a preliminary to the cutting of coupons, a coupon collection list is each month made up from the index of coupon bonds. Using the tabs of the blue cards as a guide, an alphabetical list is prepared of the name and total holding of each security whose coupons will fall due at the next interest period. On the same sheet, spaces are provided in which to record the number of coupons, amount of each, deductions for taxes, net amount, where and when payable, date of payment, and remarks. The list is turned over to the person whose duty it is to cut the coupons, and all the other entries, excepting the date of payment, are made as the coupons are cut. In cutting coupons, the fewer who take part the better, and if the officer in charge of the vault cuts them all himself, the necessity of verifying the securities as they are returned to the vault is obviated and there is also less danger of coupons being mutilated and payment refused. A steel coupon cutter is used, having two sides at right angles, each about $4\frac{1}{2}''$ long and $1\frac{1}{4}''$ wide. At the point of the right angle is a

COUPON COLLECTION SHEET

SECURITY	Principal	No.	Each	Tax	Net Amount	Where Payable	When Payable	Date of Payment	Remarks

raised knob by which the cutter is firmly held in the left hand, its inside sharpened edges at the outer margin of the coupon, while the coupon is detached by a quick pull of the right hand. Only one coupon should be cut at a time, as bonds are not always evenly trimmed, and coupons of the same date may not lie exactly under each other. As soon as the coupons are cut, they are counted and bundled in packages of not more than one hundred each, and the number is written in pencil on each package. They are then placed in envelopes on which are indorsed the name, number and amount of the coupons, the date and place of payment, and the name of the depositing trust company. About ten days before the maturity of the coupons they are deposited in bank for collection. The collecting agency may be the banking department of the trust company, or another bank. According to local usage, the envelopes may be passed through the collecting agency either sealed or open.

For coupons payable at local offices and collected by messengers, linen-lined envelopes $3\frac{1}{2}''$ x $6\frac{1}{4}''$ can be used again and again. In this case the title, interest period, and place of payment are written in ink, the number, value of each coupon, and total amount are shown in pencil, so that the figures can be changed at successive interest periods.

At the same time that the coupon collection sheet is prepared, credit slips are written up from the index of coupon bonds. These give the title of the security at the top of the slip and below an alphabetical list of estates, the par value of each holding, and the amount of the coupons due to each. A convenient size for such a credit slip is 6″ x 12″. As the slips can be corrected and used at successive interest periods, space should be left for new accounts.

The totals of each credit slip must correspond with the par value of principal and net amount of the coupons as shown by the corresponding item of the collection sheet.

As each item is reported paid, the date of payment is recorded on the collection sheet, the cash or due bill received from the banking department is handed to the trust department receiving teller, and he passes the credit slip to the bookkeepers in order to distribute the proceeds of the coupons to the proper accounts. As a matter of convenience it is well to have a coupon credit book ruled in the same way as the credit slips, and to show in it the total amount credited, refer-

ring to the slips for the individual items. When a single item is credited, or when credits are made at irregular times, the details can be written in the credit book itself without the use of a slip.

When coupon bonds fall due or are called for payment, this fact is noted on both the collection sheet and credit slip, the amounts of principal and interest being shown separately. The bonds are collected with the coupons. If they are registered as to principal, the necessary power of attorney transferring them to bearer is attached.

Redemption provisions are noted on the security index and should be examined at each interest period. Issues of bonds subject to redemption must be carefully kept track of, for there is constant danger of missing a call and learning only through the return of the current coupons that the bond was drawn for payment, and interest ceased six months before. The financial papers should be watched for advertisements of calls, and letters should be written to obtain information which cannot be otherwise secured. It is also wise to have small printed slips which can be put with the coupons, asking that notice be sent if any bonds of the issue have been called.

In the collection of interest on registered loans, the index of securities provides data for filling out a collection sheet with the title of the security, amount of principal, rate of interest, gross amount, deductions for tax, and net amount. Columns follow showing where, how, and when payable, date paid, and other remarks.

In most cases registered interest checks are received by mail. The remainder are collected by messenger or by the deposit of interest orders through bank. Credit slips and a credit book are used, and the paid items are treated exactly as in the case of coupons. Registered bonds due or called for payment must always be accompanied by the proper power of attorney. When registered loans are called for payment, notice is usually sent directly to the owner, which of course cannot be done in the case of bearer securities.

The collection of dividends is like that of registered interest. The collection sheet shows the name of the stock, total shares held, rate paid, total amount, deductions for tax, and net amount; where, how, and when payable, date paid, and other remarks. The credit slips show the number of shares held by each estate, the rate and net amount of the dividends. Irregular and non-dividend-paying stocks

must be carefully watched in order not to overlook dividend payments. The date and rate of each dividend are recorded on the back of the description card in the security index.

Notes and other items not falling into the general classes already described are collected by the same methods as registered securities. Each item has to be treated separately, however, and in the case of notes it may be necessary to have them protested if not paid. Either separate books or the same credit book can be used for coupons, interest on registered loans, dividends, notes, etc.

When coupons are returned unpaid, they are attached to the bonds. A record of all coupons and registered interest in default is kept and, when necessary, steps are taken to protect the owners.

CARE OF MORTGAGES

First mortgage loans on improved city real estate with ample margin are among the safest investments that a trust company can secure. It is, however, necessary to ascertain in every case not only the value of the real estate, but its freedom from encumbrances and the validity of the title. Compensation for the time and labor involved in negotiating a mortgage loan is found in the fact that the rate of interest is likely to be higher than that yielded by other equally secure investments.

The first step before investing in a bond and mortgage upon real estate is to obtain a full knowledge of the property which is to secure the loan. It is usual to require the applicant to fill out a printed form giving details as to the amount of the loan desired, the period for which it is to run and the rate of interest, the name of the maker of the mortgage, the location of the property, its size and the improvements on it, the value of both ground and improvements, the rental value, and the amount for which the property is assessed for taxation. Other questions cover encumbrances which might affect the title, such as municipal improvements in the neighborhood and already existing liens.

To verify this information, the property is examined by the trust company's experts, and their reports, based on personal inspection and knowledge of real estate values, serve as a guide in the final acceptance or rejection of the mortgage.

Applications may be made for loans to be secured by mortgage to be placed on the owner's unencumbered property, or by a purchase money mortgage, or by an already existing mortgage to be assigned to the company. In every case, the same general procedure is followed in the examination of the title and valuation of the property. When an existing mortgage is purchased, an assignment is made by the mortgagee who is usually required to furnish a certificate of "no defence" or "no set-off" from the mortgagor, admitting the existence of the debt.

In some parts of the United States it is customary to execute a note for the amount of the loan, often with interest coupons attached, and a trust deed conveying real property as collateral security. The interest coupons and principal note are generally payable at the office of the bank, trust company, or other institution which negotiated the loan. Each change in ownership of the obligation requires the execution of an assignment which is usually placed on record in the county in which the property is located. Mortgage loans of this character are more easily negotiated when the note and the trust deed conveying the property as collateral are issued in the name of a trustee who authenticates the note and keeps possession of the trust deed, attending to all details as in the case of a corporate bond issue. The interest notes or coupons are collected through bank as they mature and are payable at the office of the trustee. On payment of all the interest and principal notes, the borrower obtains from the trustee a release of the property which had been conveyed as collateral security. The exact method in each state varies according to local practice and legal requirements. In making real estate loans, most trust companies use their own standard forms of bond and mortgage, approved by counsel.

On the acceptance of an application for a mortgage loan, the owner of the property or mortgagor executes a proper instrument evidencing his indebtedness and a mortgage covering the real estate as security for the loan. Settlement is made, and at the same time the mortgage is placed on record in the proper office for the recording of deeds. Until satisfied of record, the mortgage remains a lien against the property. A brief of title and counsel's opinion, or the policy of a title insurance company, is usually required. A title insurance company may take charge of drawing the papers, making settlement, and re-

cording the mortgage. When a trust company has a title insurance department, settlements in connection with mortgage loans are made through this department. The borrower pays the conveyancing charges and cost of the title insurance policy.

Mortgages should be taken in the names of the accounts for which they are purchased. A mortgage too large to be taken by a single account, may be made to the trust company as trustee, to secure an issue of bonds, either registered or coupon, which are allotted to the various accounts for which the investment is made. Or both bond and mortgage may be executed in the name of the trust company as trustee, and the company may issue its declarations of trust specifying the proportion of the loan to which each account is entitled. Some companies are content to take such mortgages in their own name as trustee, simply showing by a distribution in the mortgage ledger the amounts of principal and interest belonging to the various accounts for which the mortgage is held.

If part of the mortgage loan is secured by improvements upon the real estate, it is customary to require the maker of the mortgage to carry sufficient fire insurance to cover the amount so secured. The policies are generally made payable to the mortgagee, as his interest may appear in case of loss.

Unpaid taxes being in many parts of the country a prior lien against real estate, it is necessary to know that all taxes are regularly paid. A clause in the mortgage generally provides that receipted tax bills shall be exhibited annually.

Bills for interest are sent at regular periods and receipts are given covering each payment. When mortgage loans mature, if not paid off they may be allowed to run on as demand loans, payable at the pleasure of either borrower or lender, or they may be extended for a definite or indefinite period, according to special agreement. Many mortgage loans are allowed to run on after maturity, and agreements as to rate of interest and payments on account of principal are entered into according to the exigencies of the case.

All payments on account of principal should be indorsed on the bond or note, so that it shall at all times agree with the books of record. After the final payment is made, the mortgage is satisfied of record, it being customary for the satisfaction fee to be paid by the mortgagor.

MORTGAGE LEDGER

Trust No. _____ Name _____

Interest paid by _____ Address _____

Bond or Mortgage of _____

Location of Property _____

Description of Grounds _____ Valuation _____

" " Improvements _____ "

Mortgage dated _____ Due _____ Interest Rate _____ Interest periods _____ Tax _____

Recorded _____ Extended _____

PRINCIPAL

Date	Explanation	Amount Paid	Balance	Date	Explanation	Amount Received

INTEREST

Accrued		Payments		Tax Receipts shown for	Accrued		Payments		Tax Receipts shown for
Date	Amount	Date	Amount		Date	Amount	Date	Amount	

In case of non-payment of interest or principal, or failure to comply with any other provision of the mortgage, the papers are placed in the hands of counsel, and suit is entered to foreclose the mortgage. The company which is too liberal in the amounts of its loans is likely, in times of depression, to find many foreclosure suits on its hands and to be forced to take title to properties which have to be held indefinitely before they can be disposed of.

Mortgage papers are matters of public record, and therefore their care does not require quite so many precautions against loss as do stocks and bonds not of public record. They should be kept in a vault if possible, or at least in locked metal cases. Each mortgage should be placed in a separate box or collapsible envelope, and should be filed according to the number of the account to which it belongs. If pasteboard boxes are used, they should open at the end, in the form of a slide fitting into a cover, and have the number of the account written on the exposed end of the box. The boxes should be arranged on shelves. If envelopes are used, they should be placed upright in files — preferably metal files. On each envelope the number of the account and of the mortgage is indorsed, and on the outside of the file the numbers of the accounts included in it. Mortgages may also be kept in a vertical file or in portfolios.

The mortgage ledger is the volume in which a complete record of each mortgage loan is kept. Either a loose-leaf book or cards can conveniently be used. Each mortgage has a separate page or card. At the top is shown the number and name of the trust account which holds the investment, followed by a description of the mortgage. This includes the name and address of the interest payer, the name of the mortgagor, a description of the property and improvements including valuations, the date of maturity, the interest rate and periods, by whom the state tax, if any, is paid, and the date and place of record of the mortgage. This description can be much elaborated, but a concise abstract of the salient facts is enough. A short section follows in which cash principal transactions are recorded. The columns are for the date, amount paid, balance, date, and amount received. The lower part of the front and the entire back of the sheet or card are devoted to interest payments. Two columns show the date and amount of interest accrued; two, the date and amount of the payments; and a column headed "Tax receipts shown for" provides

space for entering the year of the paid tax bills which have been submitted for inspection.

In places where county, city, borough, school, road, or other local taxes are paid to different collectors, and all, when unpaid, are liens against the property, it may be necessary to have a column for each tax. The interest columns take but half the width of a page, and are repeated so as to save space and provide for enough entries to cover the life of most mortgage loans. When a loose-leaf ledger is used, the sheets are sorted according to interest periods, and each period is arranged alphabetically by the names of interest payers. A card ledger, with projecting tabs to show the months in which the interest payments fall due, makes it possible to file all the cards alphabetically under the names of the interest payers, and saves having a separate index for this purpose, while the tabs serve as an index to interest periods.

Sheets or cards containing closed accounts are placed in a transfer binder or separate index, so that only live accounts appear in the active ledger. Closed accounts are filed by the names of the interest payers.

When settlement is to be made for a mortgage, a charge slip is filled out, authorizing the teller to issue a check in payment. This slip becomes a voucher in his settlement. It bears the date, number, and name of the account charged, the name of the mortgagor, amount paid, location of the property, name and address of the interest payer, and the signature of the proper officer. It also bears the following memoranda: posted in individual trust ledger; posted in mortgage ledger; entered in general cash book; entered in record of securities received. As each of these postings is made, the bookkeeper initials the slip. These mortgage charge slips should correspond in size with all other charge and credit slips used.

Bills and credit slips representing principal and interest receipts are written up by the mortgage bookkeeper from the ledger in advance. Both bills and credit slips contain the same information, and by using a carbon sheet they can be made out together. The bills should fit one of the company's standard envelopes without folding, and bear a notice that the bill must be presented at the trust department receiving teller's window when payment is made. A statement of the necessity for prompt payment may be added.

The credit slips are turned over to the receiving teller and are arranged by due dates and under each date according to the names of the payers. When the bill is presented for payment, the corresponding credit slip is removed from the teller's index, and after verification the bill is receipted and the credit slip is stamped paid. The slip then serves as a voucher and the source from which the later entries are made.

When the loan is represented by a note with coupons attached, no bills are sent but instead the coupons are cut and forwarded for collection. The credit slips are, however, made out and used in the same way.

Principal and interest receipts are distinguished by different colors of paper or ink. The bill and credit slip for principal items show the name and address of the payer, date due, location of property, amount of payment, number and name of trust account, and posting memoranda covering the individual trust ledger, mortgage ledger, general cash book, and record of securities delivered.

The bill and credit slip for interest specify the name and address of the payer, the period covered by the payment, the date on which it falls due, its amount, the location of the mortgaged property, and the number and name of the trust account. The posting memoranda cover the individual trust ledger and mortgage ledger. The separate items of interest receipts are not extended in the general cash book, only the total, as shown by the teller's settlement, being posted there.

A scratcher is used by the mortgage bookkeeper in which all receipts, both principal and income, are listed. The book is ruled to show the date and name of payer, with two columns for principal and interest respectively. The mortgage bookkeeper's totals settle with those of the teller. All postings are made from the credit slips direct. Each day's work should, however, be checked back from the scratcher to the mortgage ledger to verify the entries.

In addition to the books of record, it is well to have an index of mortgagors combined with a cross index of interest payers on different colored cards filed together alphabetically by names. The mortgagor cards give the name of the mortgagor, location of the property, name of the interest payer and the interest periods. On the payer's cards are the payer's name and address, followed by the location of

the property, the name of the mortgagor, and the interest periods. If the mortgage ledger is kept on cards under the names of payers, this cross index of payers is not needed.

A location index is useful in finding mortgages when the names are not known and in showing the number of mortgage loans in each locality. It is arranged primarily as to states and is subdivided according to counties, towns, and streets. The same information is given as in the index of mortgagors, but with the location of the property on the top line.

An index showing the maturity of each mortgage loan is also kept. It contains the same information as the indexes already described. By reference to the maturity index the question of demanding payment or executing an extension agreement is brought up for decision, bills for principal payments are sent at the proper time, and overdue items are kept track of. Columns to be initialled in the record of trust securities received and record of trust securities delivered, insure the making of entries in the indexes.

Records of fire insurance policies held as collateral security with mortgages can be kept in the mortgage ledger, supplemented by an insurance expiration index, or if the mortgage business is large, separate insurance records may be necessary. The policies can be kept with the mortgage papers if the business is small; in larger companies a separate arrangement is preferable.[1]

The ground rent which is found in Pennsylvania is "a rent reserved to himself and his heirs by the grantor of land in fee simple, out of the land conveyed." It is considered as real estate. The making of irredeemable ground rents is no longer permitted in Pennsylvania. The Pennsylvania Act of June 24, 1885, provides that thereafter "no irredeemable or non-extinguishable ground rent shall be charged upon or be reserved out of or for any land within" that commonwealth, and that the period for the extinguishment of any such rent shall not be postponed "longer than twenty-one years, or a life or lives in being."

The ground-rent system in force in Maryland "differs from that of Pennsylvania in that the term is used to designate the rent reserved upon lease for ninety-nine years, renewable forever."

[1] See p. 181.

The bookkeeping for ground rents is practically the same as for mortgages, and may be done in the same department.

CARE OF REAL ESTATE

In a company which controls a small number of properties, the care of real estate may be combined with that of personal property, only the system of records being kept distinct. With increase in business comes the establishment of a real estate department, sometimes entirely separate from the rest of the individual trust department. However distinct its organization may be, the real estate department should nevertheless be considered a division of the individual trust department and be in charge of a real estate officer responsible to the trust officer.

The real estate officer should be an expert in land values. His position is no sinecure, for he represents the owner, who usually is anxious for larger returns on his investment, while the tenants clamor for repairs, improvements, and reduction of rent, and cannot be ignored if the company's good name as landlord is to be preserved. It would seem that no real estate officer can hope to be popular with all those with whom he has to deal, but a reputation for being just is at least within his reach. He should be supported by an office force adequate to care for the many details connected with managing real estate. Nothing does more to make a satisfied tenant than the knowledge that his requests will receive prompt and considerate attention. If many of the tenants are foreigners, it is advantageous to have some employees who can speak to them in their own languages.

Real estate for which the company acts as agent is managed according to the directions of the owners. When acting as a trustee, the company is governed by the nature of its appointment and authority. The law of real estate, as distinct from that of personal property, is a large field where much special knowledge is required. When the power of sale is not specifically given in the will or deed, the executor or trustee can sell, if at all, only with the approval of court.

It is the duty of the real estate department to pay taxes and keep improved properties insured, rented, and in good order; to preserve unimproved properties intact and prevent trespass. As soon as a

property is placed in the hands of the trust company, notice of its appointment is given the tenants and an examination is made, of which a full record is kept. If leases are assigned to the trust company, an abstract of each one should be entered in the real estate ledger. It should be ascertained at once what charges are against the premises, — interest, taxes, municipal or other claims, — in order that proper provision may be made for their payment. If the assessment of taxes is excessive, appropriate steps should be taken to obtain a reduction. Taxes should be paid as the circumstances of the estate will allow, so as to take the best advantage of possible discounts and escape penalties for non-payment. If the improvements are already insured, the policies should be examined to determine the standing of the companies, whether the amount carried is adequate, and whether the papers are in proper form. If the property is uninsured or the amount is insufficient, new policies should be promptly taken out.

When properties are vacant, it is not enough to hang out a "To rent" sign and wait until chance brings along a customer. Many methods are now used for coming in touch with prospective tenants, and the offerings of the real estate department are often more widely advertised than any other branch of the company's business. Lists describing all properties for sale and rent should be printed at frequent intervals. All inquiries should be promptly answered, and followed up when advisable. Newspaper advertising can also be made effective.

The trust company's reputation as a landlord may be a potent factor in the success of its real estate business. Improved real estate should always be kept in as good condition as when received. In the long run, it is to the owner's advantage to keep buildings in thorough repair, the actual amount of money spent for maintenance or for improvements depending upon the character of the property and its tenants, and the purposes for which it is used. Slum properties may require a very different policy as to repairs from the better classes of houses. A request coming after the first warm days of spring, to "Please send a blumbber to figs our bath-tup, it soon be time now to use him agen," may well make one hesitate before making elaborate repairs when the bath-tub has probably served as a coal-bin all through the winter months.

All complaints should be promptly investigated, and care should

be taken not to allow the property to deteriorate through lack of inspection. Inspectors should have practical knowledge which will enable them to report intelligently on the advisability of making repairs, alterations, or improvements, as well as on the character of the completed work. Except in cases of emergency, competitive bids should be secured, care being taken that the specifications are uniform and that none but trustworthy firms are permitted to estimate. So far as possible, all requests from tenants and all orders for work should be in writing. A written report from the tenant as to the satisfactory completion of minor repairs will often obviate the necessity of an inspection.

Rent bills should be mailed, and tenants should be encouraged to pay by check in the same way. Some, however, prefer to call in person or want receipts in a rent book instead of using loose bills. In the case of small properties, a collector must usually be sent to call for the rent as it becomes due. When properties are not within reach, it is generally necessary to employ sub-agents both to collect rents and attend to repairs.

It is important to keep records to show the income received from each property, the repairs asked for and made, and other pertinent facts. Out of the gross income received, fixed charges such as taxes, assessments, insurance, interest on mortgages, as well as the cost of repairs, must be deducted in order to determine the net return from the property.

Large building operations are often conducted either as agent for the owner or to develop properties held as trustee. In such cases the trust company, if properly protected, may often make large advances greatly to the advantage of the estate and without risk to itself.

The lease forms a contract between landlord and tenant, and governs their actions. It is usually executed in duplicate, one copy being retained by each. Its terms define in detail the rights and duties of both parties. The leases are best filed by the number of the trust account and under each account by the names of the tenants. The trust company must use reasonable diligence in ascertaining whether the tenant complies with the terms of the lease. When properties are used for unlawful purposes, the landlord may be held responsible. It is well to obtain as much information as possible in regard to the

character and responsibility of tenants, before renting, as the process of eviction may be troublesome and costly.

Trust companies are often made trustees for burial lot funds, the principal to be kept intact and the income to be used for the care of the lots. In such cases, the real estate department makes periodical inspections and attends to the maintenance of lots and monuments.

The correspondence of the real estate department is usually large and space and labor can be saved by filing together all letters in regard to each property. Many general letters of only passing value, such as requests for rent lists, may be filed by subjects and so sifted out from the more important correspondence.[1]

Title papers, being bulky and of various shapes and sizes, are best kept in heavy expansion envelopes, those belonging to each property in a separate envelope. The envelopes are filed by the numbers of the trusts to which they belong, as in the case of mortgages. Title papers are recorded in accordance with the laws of the state in which the real estate is located. A new deed is prepared, executed, acknowledged, and recorded, with each change of ownership of real estate, except when upon the death of the owner the title to property passes by will or under the intestate laws, or where as in Illinois and New York the Torrens system of registration of titles is in use.[2]

[1] See Correspondence or Mail Room, p. 249.

[2] "Very early in her history South Australia passed a law relating to land for which the other six colonies still owe her a debt of gratitude. The Torrens Land Transfer Act, placed on the statute-book in 1858, sprang from the brain of an intelligent Collector of Customs at Adelaide, who, having seen in early life something of the ways of the English Court of Chancery, had come to hold very strong views about exorbitant legal charges. He thought out a plan by which a system of registered proprietorship should cheapen and simplify future dealings with land. This he submitted to the most eminent local legal authorities, and they threw cold water upon it. Not disheartened, Torrens found less learned advisers who thought better of it. An agitation in its favour was begun, and after a short contest with the legal profession, the laymen won the day. After watching it at work in South Australia, colony after colony adopted the Torrens law with but little change. Now forty years have passed, and the colonial system of land transfer is still in substance the plan hit upon by the ingenious customs officer. Everywhere it works smoothly and usefully. Land registry offices are open in every large district. Any proprietor may apply to register his land in one of these. After proper investigation by the public examiner of titles, his title and the description of his land are inscribed in one of the office ledgers. From that moment he is a registered proprietor, and any innocent purchaser from him has an indefeasible title. Thereafter any person dealing with the land has merely to send an agent to the registry office. A memorandum of the transaction — sale, lease, or mortgage — is inscribed on the page

The rent ledger, preferably a loose-leaf book, contains a sheet for each property, or if there are several tenants in any one property, a sheet for each. It is arranged primarily by the number of the trust account, then according to properties and tenants. At the head of each sheet appear the number and name of the trust and the location of the property, then the name of the tenant and the terms of the lease. The tenant's name and facts about the lease take only one line, and it is well to provide at least six lines so that a new sheet need not be made out every time the tenant changes. The cash section is divided into debits and credits. Under debits appear the date, description of the item, and a cash column; under credits, date and a cash column. The sheet is ruled and printed on both sides. The debits and credits fill only half the width of the page and can be repeated. A sheet is inserted in the ledger on receipt of each new property, whether improved or unimproved, rented or vacant. Only live matter is contained in the book. Sheets for properties which have gone out of the company's possession, and sheets which have been replaced by new ones, are filed in a transfer binder.

In the collection of rents there is more opportunity for crooked work than in any other part of a trust company's business. Any one who has access to the rent ledger, or who can hold up a credit slip on its way from the real estate bookkeeper to the individual trust bookkeeper, is in a position to collect and retain rents. The trouble lies in the difficulty of maintaining a rent roll on a double entry basis. The trust company is quite properly unwilling to make itself responsible for rents until they are collected, and the large number of correcting entries for changes in rental, bad debts, etc., which would follow the adoption of a double entry system, makes it almost impracticable. A system of internal checks should be faithfully maintained by abstracting the total credits shown by the rent ledger and

of the office ledger devoted to the particular property. A duplicate of the memorandum is handed to the agent, who may or may not be a solicitor, and the business is completed in an hour for a tithe of the cost to a conveyancer's client under the old system. The transfer system's importance is due, in great measure, to its being in part compulsory. All land acquired from the State, after the coming into force of the Transfer Acts, is placed under them as a matter of course. The registration of other private lands is optional, and though the older system is being gradually extinguished, it dies hard." — W. P. Reeves, "State Experiments in Australia and New Zealand," Vol. I, pp. 211–212.

RENT LEDGER

Location _____ Account _____ Trust No. _____

Tenant	Lease
	Dated _____ for _____ @ $ _____ per _____ Conditions _____
	Dated _____ for _____ @ $ _____ per _____ Conditions _____
	Dated _____ for _____ @ $ _____ per _____ Conditions _____
	Dated _____ for _____ @ $ _____ per _____ Conditions _____
	Dated _____ for _____ @ $ _____ per _____ Conditions _____
	Dated _____ for _____ @ $ _____ per _____ Conditions _____

Debits			Credits		Debits			Credits	
Date	Description of Charge	Amount	Date	Amount	Date	Description of Charge	Amount	Date	Amount

comparing them with the amounts which have been credited in the individual trust ledgers. This proves that the items appearing in the rent ledgers have also reached the individual trust ledgers.

The index of properties is arranged alphabetically as to states, counties, cities, and streets, and then numerically as to street numbers. Besides the location, the cards give the number and name of the account to which each property belongs and may also give a full description of the property, a record of the assessment, net return from the property, and amount of insurance carried. The index may, if desired, be separated into two main divisions, — rented and vacant properties.

The index of tenants is arranged alphabetically, shows the name of the tenant, the property rented, and the number and name of the trust account which owns it. The card may also contain an abstract of the lease, and data concerning the tenant.

The maturity index, arranged chronologically, contains the record of maturing leases, the dates on which notice to vacate must be given, and other matters which may require attention.

The data for opening and closing accounts in the rent ledger and indexes are found in the books of securities received and delivered.[1] The record of properties rented and vacated is another book from which entries are made in the ledger and indexes. Like the accession books, it has columns to be initialled when the various entries are made.

The rent bill and credit slip, in general form, are similar to those for mortgage interest.[2] They bear the name of the tenant, the address to which the bill is sent, the number of the trust account, the property for which the rental is charged, balance due, rent for the current period specified by dates, and the total amount due. When the bills are paid, the procedure is the same as in the case of mortgage interest.[3]

Among the more important miscellaneous real estate forms are the following: a printed inspection card used by the inspectors at the time of examination, containing spaces for all data which should be on file in regard to the property and its condition; agreement of sale; memorandum of settlement, which serves in place of a bill in real estate sales and purchases, and shows the adjustments of rent, taxes, interest, etc., which may enter into these transactions.

[1] See p. 188. [2] See p. 171. [3] See p. 170.

REAL ESTATE INSPECTION CARD

[FRONT]

_____Street, (North[1] / South[1] / East[1] / West[1]) No._____Ward

_____side_____feet_____inches_____ward from the_____side of_____Street

_____

Lot_____feet_____inches front by_____feet_____inches deep to_____

Depth of building_____

_____story_____building_____story back buildings used as_____

Containing_____rooms in all:

1st floor[2]_____

2d " [2]_____

3d " [2]_____

_____

Cellar floor; cement, brick, board, dirt. Heater make_____size_____brick, portable

Range make_____size_____, boiler; circulating, log_____

Hydrant, Sink, Bath; open, box. Water Closet; siphon, flush, hopper.

Washstands located_____

Wash-tubs; single, double, triplet, located_____

Drainage; under, surface. Roof; tin, slag, slate, shingle, compound.

Pavement; cement, stone, brick, board, dirt.

Gas, Electric Light. Bell; pull, electric. Stairways; open, box.

Rear outlet_____

Adjoining property to North, East_____

" " " South, West_____

Trust No._____ Name_____

Date vacated_____ Date inspected_____by_____

[1] Erase unnecessary words. [2] Beginning with front of house.

[BACK]

Cleanliness,
Ashes,
Rubbish,
Repairs needed:
Paper,

Paint:
Inside,

Outside,

Miscellaneous,

Other vacancies in same square: No.
Agent or owner

Water off
Tenant moved to

In a large real estate business many other printed forms may be necessary.

Keys can be kept conveniently in stout manila envelopes of uniform size, filed by the location of the property. When the key is borrowed, a receipt should be taken on the envelope, which is kept by the company.

Repairs are authorized by the officer who rents the properties, subject of course to such limitations as have been imposed by the owner. On receipt of a complaint, the matter is referred to an inspector or a mechanic for examination and report, except in cases of emergency, when the work is at once ordered.

All orders are given in writing on special order forms of which carbon copies are kept. As soon as the work is completed, bills are rendered on forms supplied by the trust company. Separate bills should be made out for the repairs to each property. After inspection of the work, and verification of the bill in connection with the order, a check is mailed, which bears on its face a statement that it is in full payment for work done and materials furnished under the order or orders which are specified by number. Each bill is initialled by the inspector, by the officer who ordered the work, and who approves it for payment, by the payment clerk when the check is issued, and by the bookkeepers who enter the charge in the real estate and individual trust ledgers. The bills, which serve as charge slips also, are retained and filed, and the indorsement of the check takes the place of a receipt. The payment by mail of bills for repairs saves the mechanics or their representatives many unnecessary visits to the office of the trust company.

INSURANCE ON REAL ESTATE

Insurance is carried on improved properties owned by the company itself or held for trust accounts. Policies of insurance are also held as collateral security with mortgage loans on improved real estate. Insurance may cover loss by fire, boiler explosions, tornadoes, burglary, and breakage of plate glass, loss of rent, and liability for accidents.

Where the properties and mortgages owned and controlled are few in number, the insurance policies can be kept and recorded in the departments in which the investments are held. If the amount of

insurance carried is sufficient to justify the expenditure, it is well to have all policies cared for by some one with special qualifications for this duty.

On receipt of a property or mortgage, the policies are turned over to the insurance clerk, who makes sure that they are in proper form, that they are written by responsible companies, and that the total amount carried is sufficient. The insurance clerk takes out new policies as the old ones mature, and in case of fire represents the trust company in the settlement of the loss.

A maturity book or index is kept in which is noted the date of expiration of each policy. This book is arranged as a perpetual calendar, with one page for each day in the year. Each policy is entered on the page of the day on which it matures, and the year is written in pencil as the last item of the record. Or the book can be arranged to run for a specified time with a separate space for each day during the period. Maturities can also be satisfactorily recorded on a card index, the cards arranged in chronological order, according to the date of maturity of the policy. The current month is divided by guide cards according to days, the current year by months, and later maturities by years. The maturity book or index shows the number and name of the account for which the policy is held, the property insured, the name of the insurance company, the amount and date of expiration of the policy. It may also show whether the policy covers property owned, or held as collateral with a mortgage loan.

The estate index is arranged alphabetically by the titles of the trust accounts. Each card shows the name and number of the estate, the location of the property insured, the number of the insurance policy, company, amount, and date of expiration. If the policy is held as collateral, the name of the bondsman and amount of the mortgage are also shown.

The location index is arranged alphabetically by states, counties, etc. The cards show, besides the location, the name and number of the estate, and, if collateral, the name of the bondsman and amount of the mortgage. Then follows an itemized list of all the insurance on the property, giving the name of each company and the amount and expiration of the several policies. A record of the agents of the various companies and the brokers through whom the policies are

placed, can also be made on the location cards. When there have been losses by fire, this index is the first to be consulted.

The "line" index, on another set of cards, is arranged alphabetically by companies. Under each company the cards are arranged according to location. The name of the company, location of the insured property, number of the trust account, amount and expiration of the policy, are given. This index keeps the insurance clerk informed of the total risk carried in each company, and the geographical distribution of the insured properties. Each of these three sets of cards should be of a different color from the others, as a matter of convenience in readily distinguishing them.

The policies are stacked in upright files. There are two main divisions, — for policies covering properties owned, and properties held as collateral. The arrangement of both divisions is first by trust numbers and then by properties. Each policy is kept in a manila envelope $4\frac{1}{4}'' \times 9\frac{1}{2}''$ open at the end. On the envelope are indorsed the number and name of the trust account, the premises insured, company, number, amount, and expiration of the policy. If collateral with a mortgage, the name of the bondsman is also given. The envelopes for policies owned may be printed in black, and those for policies held as collateral, in red.

A slip giving a description of each policy, and showing that it has been filed by the insurance clerk, is placed with the real estate or mortgage papers.

A printed form is used to notify mortgage borrowers of the expiration of collateral insurance. This notification should give the name of the mortgagee to whom the policy is to be made payable in case of loss.

CHAPTER VIII

INDIVIDUAL TRUST DEPARTMENT (*Continued*)

RECEIPT OF TRUST FUNDS

The entire separation of the affairs of the banking and trust departments makes it necessary to have separate trust department receiving and paying tellers. If the trust department is small, both offices may be filled by a single individual and may even be combined with other duties.

All cash receipts of the trust department pass through the hands of its receiving teller and are included in his daily settlement. Mortgage interest and rents come to him directly from the payers and tenants, but coupons, interest and dividend checks, bonds, and other principal items are received through officials of the trust department. Some of these have to be collected by messenger, and are then turned over to the receiving teller. The cash should in all cases go from the collector to the receiving teller, and never be allowed to pass through the hands of the bookkeeper.

In the banking department, the receiving teller enters the amount of each deposit in a pass book which he returns to its owner, while he retains the deposit slip. In the trust department the procedure is somewhat different. The bookkeepers prepare bills and corresponding credit slips for mortgage interest, rents, etc. These credit slips are passed in advance to the receiving teller and are filed by due dates and names of payers, so that the slips representing overdue items always appear at the front of the teller's index. The bills are verified when presented for payment. The slips are stamped "paid" and the bills are receipted and returned. When collections are made by messenger, bills are not sent out, but the necessary credit slips are prepared by the bookkeepers, and, with the cash, are passed to the receiving teller by the collector.

Coupons are cut, and notes and other maturing securities are taken out by the officer in charge of the vault and are deposited by him

with the receiving teller as cash or for collection through bank. The accompanying credit slips are prepared by the bookkeepers. Registered interest and dividend checks which have come by mail are passed to the teller with credit slips showing the accounts to which they belong.

The credit slips covering each of the different kinds of receipts are listed by the teller on an adding machine or in a scratcher, and are then passed to the bookkeepers for posting just as is done with the deposit slips in the banking department. The receiving teller's settlement shows the total of each sort of receipt divided into income and principal. Important and often difficult problems arise in deciding what is principal and what is income. The distinction is fundamental and all doubtful cases should be referred to the trust officer, and, if necessary, to counsel. If separate corporate trust and individual trust departments are maintained, the settlement shows the receipts first by departments and then according to the nature of the item. The total receipts for the day settle with the cash on hand and the amount deposited in bank.

The stamp used in indorsing checks for deposit shows that the check has been paid to the trust department of the company. In states where it is not contrary to law, the trust department usually deposits its funds to its credit in an account in the banking department. In certain states, however, a trust company is required to deposit its uninvested trust funds in some other financial institution.

DISBURSEMENT OF TRUST FUNDS

In the trust department all funds are disbursed by the trust officer or by the payment clerk to whom this authority is delegated. As agent or attorney, the company makes payments in accordance with the directions received from time to time from the owner. As trustee or executor, it is governed by the terms of the deed or will, subject to the supervision or direction of the court; as administrator, by the intestate laws and orders of court.

The disbursing officer of the trust department must be familiar with the conditions of each case, and this makes his problems more complicated than those of the paying teller in the banking department, who before paying a check has only to know that the signature

and indorsements are genuine and the bank balance sufficient. Sometimes an opinion of counsel should be obtained or a special order of court may be necessary as to the right or duty of the company to make disbursement of trust funds. Sometimes proof must be had that the beneficiary has complied with certain requirements contained in the instrument creating the trust, and so is properly entitled to the payment. An annuity, for example, may have been made payable to an agent. No such payment should be made without satisfactory evidence that the annuitant is alive at the time. When income payments are made, a sufficient sum must be retained to cover commissions, taxes, repairs to real estate if any, and other charges against the estate, and the disbursing officer must use considerable judgment in making provision for fixed or contingent liabilities, at the same time satisfying the reasonable demands or needs of the beneficiaries. Payments may occasionally be made, even when there is no cash balance to the credit of a trust account, if such a course is to the advantage of the estate, and the trust company is protected against loss by assets sufficient to cover the overdraft. This is often done to settle debts, provide for funeral expenses, pay taxes, or make reinvestments when securities are about to mature. Interest is charged on all debit balances.

A card index arranged as to years, months, and days serves as a guide in making disbursements. Under each date the cards are indexed alphabetically by the names of the accounts. When a regularly recurring payment is made, the card is moved to the corresponding distribution date of the next year. This index covers income payments, annuities, and other charges against trust estates, such as interest and principal of mortgages, taxes, etc. For regular income payments, standing orders are usually filed, directing that they shall be remitted by mail or placed to the credit of the beneficiary's deposit account in the banking department or with some other company. Those who prefer to collect income in person are paid by check, after establishing their identity.

Before any payment is made, a charge slip is prepared, and signed by the officer authorizing the disbursement, which shows the account charged, the payee, and the details of the payment. A check or voucher is then filled out, and signed by the proper officer or officers. The check should bear on its face the words "trust funds" and

This Check is in payment of the following Account		
Total		

No._____ _____ 190 ____ $_____

THE MODERN TRUST COMPANY

Pay to the order of _____

TRUST FUNDS Dollars

100

Countersigned

_____ Controller

_____ Manager Individual Trust Department

The proper endorsement of this Check is the only receipt required.

should be so drawn that the indorsement will serve as a receipt. In the case of repairs to real estate, the bill takes the place of a charge slip.[1]

When the accounts of executors and trustees come up for audit, vouchers are required by the court covering all disbursements. These receipts are either filed with the account or presented if called for. In parting with trust assets other than cash, an order is signed by the proper officer, authorizing the withdrawal from the vault and delivery of the securities. A receipt or release is taken when the securities are delivered. When legacies are paid prior to final accounting, receipts or releases are filed or presented in the same manner as receipts for other disbursements. When legacies are paid after final audit of the account in accordance with the court's adjudication, the receipts or releases of legatees are sometimes filed with the clerk of the court, thus completing the record of the settlement of the estate.

The daily settlement of trust disbursements shows the total of the charge slips, separated according to the principal and income payments, and this should agree with the total of checks issued as shown by the stubs. The balance in bank and the cash in possession of the trust department receiving teller represent the uninvested trust funds at the close of business and agree with the amount shown by the general ledger. The bank account of the trust department should be settled weekly, and reconciled with the check stubs or whatever other record is kept of trust checks issued.

RECORD OF INDIVIDUAL TRUSTS

When securities are received for trust accounts, a duplicate of the receipt is filed for reference, and from it a description of the items is at once transcribed into an accession book called the record of trust securities received. This book contains a series of parallel columns, showing the number and name of the account, description and value of the security, when and by whom received, by whom entries covering the item were made in the proper books, when and by whom the securities were finally deposited in the vault, and a last column to be initialled by the controller after all the proper entries have been made and the security has been put away. Each clerk upon making

[1] See p. 181.

RECORD OF TRUST SECURITIES RECEIVED

Date	TRUST		Stocks	Bonds	SECURITY	Par Value	Appraised Value
	No.	Name					

RECORD OF TRUST SECURITIES RECEIVED

RECEIVED FOR COMPANY		Record of Individual Trusts	STOCKS BONDS & MISC SECURITIES		MORTGAGES			REAL ESTATE		INSURANCE				DEPOSITED IN VAULT		Examined by Controller
Date	By		Index of Securities	Maturity Index	Index of Mortgagors & Interest Payers	Location Index	Maturity Index	Rent Ledger	Index of Properties	Maturity Index	Estate Index	Location Index	Line Index	Date	By	

RECORD OF TRUST SECURITIES DELIVERED

DATE	Trust No.	ESTATE	Shares	Bonds	SECURITY

RECORD OF TRUST SECURITIES DELIVERED

Par Value	Rate	Price Received	Record of Individual Trusts	STOCKS BONDS & MISC SECURITIES		MORTGAGES			REAL ESTATE		INSURANCE				Examined by Controller
				Index of Securities	Maturity Index	Index of Mortgagors & Interest Payers	Location Index	Maturity Index	Rent Ledger	Index of Properties	Maturity Index	Estate Index	Location Index	Line Index	

the entries for which he is responsible places his initials in the proper column. This record is also used as a receipt book, and indicates in whose hands securities are and how far the records have been completed. Cash received is at once entered in the cash book, and does not appear in the accession book. The accession book may be so ruled that every kind of security can be entered in it, or if the company transacts a large business it may be divided into two books, one for stocks and bonds, and another for real estate and mortgages; or if desirable it may be still further subdivided. Slips are sometimes used to report new securities, but a bound book is preferable. The value of the accession book lies in its calling the attention of the clerks to each possible place where entries should be made. The initials in the various columns place responsibility for the correctness of the entries, and the examination by the controller detects any omissions.

The number and name of each new trust account, and the capacity in which the company acts, should be entered in the record of trust securities received when the account is opened.

The record of trust securities delivered is a companion book to the record of trust securities received. An entry is made in the delivery book when securities are sold or delivered, when any principal payment is received, or when a trust account is closed. The book can either contain all deliveries or, like the accession book, it can be divided into separate volumes for the different classes of securities.

The record of individual trusts is the most important book of reference of the trust department. Supplemented by the trust ledgers, it gives the present status of each trust account and forms a history of all past transactions. It should not be kept by the officer who has charge of the securities. For such constantly changing records as those of trust assets, a loose-leaf book has many advantages. Space is saved, as extra pages are inserted only as needed and dead matter is transferred to separate binders. Accounts can always be kept in their numerical order; securities can be classified, and where there have been many changes single pages can be rewritten at any time, without the necessity of copying the whole book. Sheets 11″ long by 12″ wide (exclusive of the blank binding space), kept in locked binders, have been found well adapted to the purpose. Each trust account has an abstract sheet and as many of the following sheets as are needed to record the securities it holds.

Sheet A. — At the top the word "abstract" is printed, and space is left for the title of the account and its accession number. The remainder of the page is devoted, as its name implies, to a brief description of the account. The nature of the appointment and of the estate, the disposition of income, authority as to investments, nature and amount of debts and encumbrances, notice of assignments, rate of compensation, exact title in which securities are registered, power to sell, if any, and the name and address of counsel are shown, together with the names of the beneficiaries and miscellaneous data. The sheet is divided into three columns, and the headings are printed far enough apart to leave room for the various entries. The back of the sheet is also ruled, and can be used in recording further information.

Sheet B. — "Coupon bonds" is printed at the top of the sheet, followed by spaces for the name and number of the account. Both sides of the sheet are ruled and printed. Every fourth line is ruled more heavily than the rest. This divides the page into spaces of four lines, and each security is entered in a separate space even though it does not fill it entirely. At the left-hand side is a date column, a column for tick marks, then one, $3\frac{1}{2}''$ wide, for the description of the security including bond numbers, columns for the date of maturity and interest periods, cash columns for the par value and the appraised or cost value, and, lastly, a wider column for payments and remarks.

Sheet C. — Stocks. Columns are ruled for date, tick marks, number of shares, description, certificate numbers, dividends payable, par value, appraised or cost value, and payments and remarks. Every second cross line is heavier, a space of two lines being devoted to each security.

Sheet D. — Notes and miscellaneous securities. Columns for date, tick marks, description, par value, appraised or cost value, and payments and remarks. The cross rulings allow three lines for each security.

Sheet E. — Registered loans. This page is like sheet B in every respect except the title.

Sheet F. — Mortgages. Columns for the date, tick marks, premises, bond of, maturity, interest rate and dates payable, par value, appraised or cost value, and payments and remarks. A space of four lines is provided for each mortgage.

SHEET NO.	ABSTRACT	NAME
Appointment		Authority as to Investments
Under will of		
Late of		
Who died	Will dated	
Probated	Registered	
In	County Will Book Vol. page	
By Court	at No. Term 19	
Deed of Trust		
Dated		Debts and Incumbrances
Agreement dated		
		Notice of Assignments
Nature of Estate		
Disposition of Income		
		Compensation
		Securities to be Registered
		Power to Sell
		Counsel

NO

	Cestui que Trustent and Beneficiaries
	Other Data

SHEET NO. ____ COUPON BONDS. ____ NAME ____ NO ____

Date	✓	Description	Maturity	Interest Payable	Par Value	Appraised Value	Payments and Remarks

SHEET NO. _____ STOCKS _____ NAME _____ NO. ____

Date	✓	Shares	Description	Certificate Numbers	Dividends Payable	Par Value	Appraised Value	Payments and Remarks

192

SHEET NO. _____ NOTES AND MISCELLANEOUS SECURITIES. _____ NAME _____ NO. _____

Date	✓	Description	Par Value	Appraised Value	Payments and Remarks

193

SHEET NO. _____ REGISTERED LOANS _____ NAME _____ NO. _____

Date	✓	Description	Maturity	Interest Payable	Par Value	Appraised Value	Payments and Remarks

SHEET NO. _____ MORTGAGES _____ NAME _____ NO. _____

Date	✓	Premises	Bond of	Maturity	Interest		Par Value	Appraised Value	Payments and Remarks
					Rate	Payable			

SHEET NO. _____ REAL ESTATE _____ NAME _____ NO. _____

Date	Property	Encumbrances	Appraised Value	Payments and Remarks

Sheet G. — Real estate. The date, description of the property and of encumbrances, and the appraised or cost value are shown, with a final column for payments or remarks. Six lines are allowed for each property.

Other sheets can be provided as needed for securities not included in the above list. Thus, where real estate loans in the form of ground rents are held in any number, a sheet should be used, ruled to show the date, premises, whether redeemable or irredeemable, rent payable, rent per annum, par value, appraised or cost value, and payments or remarks.

Additional purchases of securities already held are entered in the same space as the original investment, thus obviating the necessity of rewriting the title of the bond or stock. When one space is not enough for the description of an investment more are filled. Both sides of the sheets are used, and as many sheets of each kind as are needed.

The will, deed, or other authority under which the account is received, the record of securities received and the securities themselves, are the sources from which entries are made in the record of individual trusts. The par values are verified by actual comparison with the securities, and the total of the appraised or cost values of each account must settle with the total investments of the estate shown in the individual trust ledger. The total appraised or cost value of all investments of each sort held, settles with the corresponding general ledger account. All securities sold or distributed are ruled out, and the particulars are noted on the sheets in the space provided for this purpose. When all the securities on a sheet are ruled off, the sheet is taken out and filed in a transfer binder. When an account is closed, a closing entry is made on the abstract sheet, the sheets are stamped "closed," and are transferred in the same way. The record of securities delivered is the authority for making these entries. If a page has to be rewritten, it is not destroyed, but is marked "rewritten," and is filed with the others in the transfer binder.

A card index arranged alphabetically, and giving both the name and accession number of each trust, makes it easy to refer to any account in the record of individual trusts. It also serves as an index to all valuable papers, not securities, which may most conveniently be kept together under trust numbers in vertical filing cases, in a vault or fireproof case. The index of trusts is divided into open and closed

accounts. When an account is closed the card is stamped "closed," and is transferred from one section to the other.

In addition to having in the record of individual trusts an abstract of the authority under which the company acts, it is well to have complete copies of these documents in accessible form. For this purpose a typewritten copy of each will, deed of trust, agreement, power of attorney, or other document is made when the account is received. These copies are kept flat in binders, in order of the accession numbers of the accounts. When an account is closed, the copy of the will or other authority is removed from the binder, and is filed with the estate papers. In this way, live matter only is contained in the binder.

INDIVIDUAL TRUST LEDGER

Other elements besides cash enter into the individual trust accounts, and consequently a different form of ledger from that used in the banking department is required. This ledger is preferably a loose-leaf book. The accounts are kept in alphabetical order. The trust number is used throughout as an additional safeguard in placing the items. At the top of the page appear the name and number of the account, and the rate of compensation. When it is necessary to separate accounts of proceeds of sale of real estate from accounts of personal property, two ledger sheets may be used for one trust so as to simplify the preparation of the accounts to be filed with the court. The sheets are ruled on both sides. At the left of the sheet are date columns and a description column. This column should be wide enough for as full an explanation of each item as needs to be given in accounting to court or to the beneficiary, and each entry should be so complete that the ledger sheet can be handed to an intelligent stenographer to prepare court accounts or statements from it. Next comes a narrow column for the check or voucher number, which is useful in identifying checks when needed for reference or to be produced in court. The rest of the page is filled by cash columns under the three main headings of income, principal, and investments. In some cases it may be preferable to use one sheet for principal and investments and another for income.

In the "income" section under debits are shown payments to creditors and beneficiaries, taxes, repairs, interest on overdrafts, commissions, and all other distributions chargeable to income. Under "gross credits," all income receipts are entered. The next columns are

Compensation _____

_____ OF ESTATE OF _____

Date	Items	Voucher No	INCOME			
			Debit	Balance	Gross Credit	Co

Trust No. _____

Sheet No. _____

Net Credit	PRINCIPAL			INVESTMENTS		
	Debit	Balance	Credit	Debit	Balance	Credit

headed commissions and net credits. The gross amount of each income receipt is thus shown, followed by the commission on it, and the net sum for distribution after deduction of the trust company's charge. The commissions and net credits settle with the gross credits. By computing the commissions on income at once in this way, the danger of over-payments of income to beneficiaries is avoided and it becomes unnecessary to pick out the items later, so as to compute the amount of compensation on the total. The balance column, which completes the income section, shows the difference between the debits and gross credits; in other words, the balance of income on hand for distribution and payment of commissions. Debit balances are shown in red.

The "principal" section consists of debit and credit columns, and a balance column. The credit column shows the corpus of the estate at the opening of the account, and all subsequent accretions. The debit column shows all losses and amounts paid out in distribution. The balance column gives the difference between the two, which is the amount of the corpus of the estate for which the trust company is liable. There is no separate column for commissions on principal, as these items do not appear often enough to make it necessary.

Under "investments" are columns for debits, credits, and balance. The debit column shows that part of the corpus of the estate which is invested at the opening of the account, and the cost of all subsequent purchases of securities. The credit column gives the amount realized from sales of investments, and the amount of investments distributed in kind. The balance column shows the amount of investments on hand.

The amount of uninvested principal is found by deducting the debit balance in the investment section from the credit balance in the principal section. The total amount of cash on hand belonging to the estate is composed of the uninvested principal, and the balance in the income section. If the estate is over-invested, or if the income receipts have been anticipated and paid out, the cash balances may show an overdraft.

Ledger postings are made from the credit and charge slips described under receipt and disbursement of trust funds. The credits and charges are also listed in scratchers. The totals of the individual trust ledgers settle with the controlling accounts in the trust general ledger.

Daily balance and interest slips are used, similar to those in the banking department,[1] except that they cover a three months' period, three columns showing principal balances and three income. Calculations of the interest charged or allowed are made on daily balances as in the case of deposit accounts.[2] Each day's changes are made on the slips from the scratchers, and the resulting figures are called back to the ledgers to verify the ledger postings. In accounts where principal balances are not for investment, this fact is noted on the slip. Each day, as the changes are made, blotters are inserted in the files of balance slips, different colors being used to denote principal and income items. At the time of verification with the ledgers, the blotters marking income changes are taken out, while those representing changes in principal balances are moved so as to show at the opposite end or side of the file, which is then used in making the daily changes on the index of uninvested principal balances.[3]

The accounts in the individual trust ledger are closed at fixed intervals when statements are rendered the beneficiaries, or when accounting is made to court. Trial balances should be taken off at least once a month. On the trial balance of the individual trust ledger, cash is the balancing account, being the difference between the principal and investment section plus the balance in the income section.

Accounts are filed in court in accordance with legal requirements. The books of the trust department should be so kept that such accounts may be merely a transcript of the ledger. The courts usually prescribe the form in which accounts shall be filed, for the sake of uniformity often fixing even such details as the size of the sheet to be used. As accounts may cover long periods, it is well to have the transcripts kept up to date, so that only the work of a short period will have to be added to them before the account is filed. In this way, lengthy accounts can be prepared in slack times and kept ready for immediate filing, without interfering with the current work of the department.

Statements should be sent at least once a year to the clients of the trust department; when possible, a semi-annual account is to be preferred. As most statements are sent out at fixed dates which can be determined in advance, they should be prepared beforehand, so that only the last items have to be added at the close of the period.

[1] See p. 69. [2] See p. 70. [3] See p. 207.

Prompt rendering of such statements is always appreciated by the recipient.

TRUST GENERAL LEDGER

In the trust department a double entry system of accounts is used, which is complete in itself and independent of the general books of the company. Its connection is only shown by the item of uninvested trust funds, when these are deposited with the banking department, and by the earnings from the business which are transferred by cash entries, at fixed periods, to the company's income account, and so appear in its profit and loss account.

Whether there be a single trust department or a corporate and an individual trust department, each keeping separate sets of auxiliary books, the main threads of the trust business are gathered together in a single general ledger. A bound volume with the ordinary ledger ruling may be used. In its simplest form, the trust general ledger contains the following accounts: —

Principal. — This account shows the total corpus or principal sum, invested and uninvested, of the estates in the trust department at appraised or cost values. It may appear in the general ledger as a single account or divided according to the capacities in which the company acts.

Income. — Here the total income to the credit of the various trust accounts is shown, either in a single account or separated as in the case of principal.

Investments. — This account shows the total of all invested trust principal with which the company charges itself. The difference between the principal and investment accounts represents the amount of uninvested principal. Cost or appraised values are shown. A single account may be used, although separate accounts for the various classes of investments are preferable, and if thought wise, each one can be subdivided according to the capacity in which the company acts.

Cash.—This account shows the total amount of cash with which the company charges itself. It includes income and principal moneys awaiting distribution, principal for investment, and accrued commissions.

Commissions. — To this account are credited the various items of commissions as they accrue. At fixed periods, usually once a month, it is closed into the earnings of the company by a cash entry.

The general ledger balance sheet containing the above accounts is as follows: —

TRUST DEPARTMENT GENERAL LEDGER BALANCES

Debits		*Credits*	
Cash	$500,000	Principal	$4,800,000
Investments	4,500,000	Income	190,000
		Commissions	10,000
	$5,000,000		$5,000,000

If the corporate and individual trust departments are separate, the same balance sheet appears in the following form: —

TRUST DEPARTMENT GENERAL LEDGER BALANCES

Debits			*Credits*		
Cash		$500,000	Principal:		
Investments:			Corporate,	$1,800,000	
Corporate,	$1,700,000		Individual,	3,000,000	$4,800,000
Individual,	2,800,000	4,500,000	Income:		
			Corporate,	$90,000	
			Individual,	100,000	190,000
			Commissions:		
			Corporate,	$5,000	
			Individual,	5,000	10,000
		$5,000,000			$5,000,000

If all trust business is cared for in a single department, but a more detailed balance sheet is desired, the general ledger accounts shown above are divided according to the capacities in which the company acts and the kinds of investments held.

TRUST DEPARTMENT GENERAL LEDGER BALANCES

Debits			*Credits*		
Cash		$500,000	Principal:		
Investments:			As executor,	$500,000	
Coupon bonds,	$1,000,000		As administrator	300,000	
Stocks	500,000		As guardian	100,000	
Notes and miscel. sec's	10,000		As trustee under will	2,000,000	
Regd. loans	1,500,000		As trustee under deed	1,500,000	
Mortgages	1,000,000		As attorney	400,000	$4,800,000
Real estate	490,000	4,500,000	Income		190,000
			Commissions		10,000
		$5,000,000			$5,000,000

The income and commission accounts can be divided to correspond with the principal account. Each class of investments can also be divided according to the capacity in which the company acts. Where there are separate corporate and individual trust departments, the same subdivisions can be made under each department. The number of accounts in the general ledger and the consequent amount of detail shown on the balance sheet depend on the size of the business and the information required by the officers. For a small company, the simplest form will suffice. A large business requires a more detailed analysis of the general ledger accounts.

The trust department general ledger is closed at the end of the fiscal year by bringing down the balance of each account before commencing the business of the new period. The process is simple, as the company's expenses are shown in its general books, and commissions is the only account in the trust department general ledger to be transferred to earnings.

In the trust general cash book, if the business is settled on a daily basis, separate columns for income, principal, and investments appear on both debit and credit pages. When securities are sold, paid off, or delivered, the original cost is charged to investments, and any profit or loss resulting from the transaction is either credited or charged to principal. When securities are bought and carried at cost, the amount paid is credited to investments. The data for each entry are obtained from the charge or credit slip, which shows the component parts of the item and the accounts into which it is to go. The day's total of each class of receipts and expenditures is posted from the cash book to the general ledger.

If the business is settled on a monthly basis, the cash book should be ruled with a separate column for each of the active general ledger accounts, so that the totals can be posted instead of the individual items. A miscellaneous column is used for the inactive accounts, and each item entered in it is posted separately.

The journal is ruled with two columns for each active general ledger account and two for miscellaneous items. From the columns for active accounts, postings to the general ledger are made by totals, while from the miscellaneous section each item is posted separately.

A trust department comparative daily balance sheet is prepared

for the use of the officers of the company.[1] At the left-hand side of the sheet appear the titles of the various accounts followed by cash columns for yesterday's and to-day's balances and increases and decreases to-day. The assets appear at the top of the page, divided according to the arrangement of the accounts in the general ledger, to show the various sorts of investments held. The liabilities follow, separated into principal held in various capacities, income, and commissions. The number and arrangement of the items is determined by the accounts carried in the general ledger. Totals of both assets and liabilities are shown, and net changes in each, in order to balance the footings.

A comparative monthly balance sheet in the same form, but printed on a different colored paper, is used to show the changes in the business from month to month.

A monthly statement should also be made of the number of trust accounts opened and closed, and the resulting balance of open accounts at the end of the month. The lists of accounts opened and closed should give the names, with a short description of the size and character of each estate, and the capacity in which the company acts.

INVESTMENTS

The trustee's duty in investing the funds is a double one; namely, to invest them securely so that the principal shall be preserved intact, and to invest them as productively as possible under his powers, so that they shall yield the best rate of interest obtainable for the benefit of the person or persons entitled to the income. He must hold the scales evenly, regarding scrupulously his duties to all beneficiaries. The popular idea that security is the only consideration is erroneous, as the trustee is equally bound to invest the funds as profitably as possible and cannot neglect one duty more than the other.[2] The mistaken impression that the corporate trustee, even more than the individual, is mindful only of the safety of the principal and entirely loses sight of the question of income, has arisen from the restrictions as to investments imposed by law, and frequently also by the will or trust deed, and from the fact that the individual executor or trustee, rightly or wrongly, sometimes assumes risks and personal

[1] See p. 241 for description of a similar balance sheet.

[2] See "A Trustee's Handbook," by Augustus Peabody Loring, p. 95.

liability which the proper rules of a trust company would not permit it to assume.

Investments for attorney accounts are made in accordance with the directions of the owners or subject to their approval. The executor or trustee is governed, as to the kinds of investments, by the directions of the will or deed of trust. This may require the purchase of "legal investments" only, or state that the trustee is not to be confined to securities prescribed by law, or give specific directions as to the classes of securities which are to be bought. The terms of such documents are always strictly construed by the courts; if no directions are given, the trustee is expected to buy only "legal" securities, and when he exceeds his powers he is held responsible for any loss. Administrators and guardians without broader powers given by will are obliged to invest, except at their personal risk, in such securities as are sanctioned by law or directed by the court.

Some states prescribe by statute the securities in which a trustee may invest. "Where there is no statute or decision of the highest court fixing the class of securities in which a trustee may invest, he can safely follow the rule prescribed for the investment of the funds of savings banks." [1] In general, city, state, and United States bonds, and first mortgages secured on improved real estate with ample margin, are among the investments sanctioned by law. As to real estate, stocks, and first mortgage bonds of railroad, manufacturing, and other corporations, the practice varies in the different states. Loans on personal property, second mortgages, and other investments subject to prior liens or of a speculative character are excluded. All investments must possess intrinsic value; the courts hold trustees liable for any losses from speculative risks — but any gains accrue to the trust estate.

Executors and trustees are often permitted, or directed, to retain the securities in which an estate is invested on coming into their hands, but in reinvesting are confined to other classes of securities. One of the first duties of a trustee on assuming the charge of an estate is to make a careful examination of the securities and, subject to the direction of the instrument creating the trust, to dispose of such as are improper, unsafe, or unproductive. Investments should not be changed unnecessarily, but as the best interests of the fund demand. It is

[1] See "A Trustee's Handbook," by Augustus Peabody Loring, pp. 96, 100 *et seq.*

generally unwise to invest an entire fund in any one security. In settling an estate, it may be necessary to convert it into cash in order to pay debts and legacies, hence an executor is not required to keep an estate as closely invested as is a trustee who must hold it for the support of a beneficiary.

The making of investments for the trust department is one of the most important duties of the general officers of the company, in which they are assisted by the directors and guided by expert advice based on thorough investigation. They should be kept informed of the amount of balances for investment and of securities about to mature, and should be in a position to take advantage of favorable market conditions.

The practice of carrying in the company's possession securities which are available for transfer to trust accounts, has much in its favor: a client can be shown a list of securities immediately available, and maturing obligations can be at once replaced. A word of caution is, however, necessary. Unmarketable securities must never be found in such an account, nor be sold to trust estates when they cannot be disposed of otherwise without loss. Nor can profits properly be made through the purchase of investments and their subsequent sale at advanced figures to estates in the interest of which the trust company is supposed to be acting. One large and successful trust company which maintains a department for the purchase and sale of bonds, in order to be free from any taint of suspicion, invariably buys and sells for its trust estates through other firms, even when it can secure better figures through its own bond department. It must also be remembered that when the trust company owns securities and later sells them to its trust accounts, a greater moral responsibility is assumed than when the investments are purchased in the first instance for the trust department from outside sources.

When securities are bought at a premium for trust accounts, a proportionate part of the premium is sometimes charged off at each interest period, so that no loss to the corpus of the estate will be shown at the maturity of the obligation. This is a practice heartily to be commended.[1]

The securities are assigned to the various trust accounts under the direction of the trust officer. All accounts should be kept as

[1] See "A Trustee's Handbook," by Augustus Peabody Loring, p. 112.

closely invested as possible. On uninvested trust cash deposited in the trust company's banking department, a higher rate of interest may be allowed than on ordinary deposit accounts. When these funds are deposited elsewhere, the same rate of interest that is received from the depositary is credited to the trust account. Securities representing the uninvested trust balances may be bought and held by the company in order to secure a larger return than that received from moneys on deposit.

A record should be kept of the cash balances for investment in each account. This may be a card index, on which the balance is shown and an abstract of the provisions as to investments. The index can be arranged alphabetically under the names of the trust accounts, or may be divided according to the size of the balance, whether for investment or not for investment, and the character of the investments allowed. If divided in any of these ways, each division should be arranged alphabetically. When securities are engaged but not paid for, this fact can be noted in pencil on the card. Changes in the balance of principal index are made daily from the balance slips of the trust bookkeepers.

COMPENSATION

It is difficult to do more than fix an approximate scale of charges for services rendered by the trust department. A general standard should, however, be adhered to, and each client should understand that charges are based first on the duties to be performed by the company, then on the size and character of the estate. When a trust company serves in capacities in which its actions are subject to review by court, the compensation is fixed either by statute or by order or decree of court. The courts usually allow trust companies the same compensation that would be given to individuals acting in similar capacities, and this may be made the foundation of the company's schedule of rates. When a trust company and one or more individuals act as co-executors or co-trustees, the commissions may be equally divided, or the trust company, if it cares for the securities and does the principal part of the work, may receive the larger share of the commissions. If the estate of which it is executor or trustee is very large, the court may decide upon a commission smaller than that usually allowed.

As agent and attorney, the commission charged for the mere collection of interest and dividends is less than for taking care of the securities also. A larger commission is charged for collecting rents than for collecting interest and dividends on bonds and stocks. When acting as trustee, a commission is usually charged on the income collected and on the principal of the personal property at the close of the trust. No commission is charged for reinvesting.[1] In executorships, a commission is charged on both principal and income. In Pennsylvania, if the same person is executor and also trustee, he is entitled to receive or charge but one commission on the principal coming into his hands. When a trust company is to be named as executor or trustee under a will, an agreement as to charges is often made with the testator. Under such circumstances, the company's officers can be consulted with perfect propriety and in entire confidence, and other matters besides that of compensation can be settled, such as the appointment of co-executors, while the testator may at the same time obtain valuable advice as to the best methods of carrying out his wishes.

Commissions should be charged on each item when it is collected, or at the end of each month or quarter, except in estates in which the rate of compensation is subject to review by the courts. The general principle, that earnings of the company should wherever possible be taken credit for during the period in which they accrue, holds good here.

[1] For compensation of trustees in the various states, see "A Trustee's Handbook," by Augustus Peabody Loring, p. 30 *et seq.*

CHAPTER IX

SAFE DEPOSIT DEPARTMENT

INTRODUCTION

THE necessity of making adequate provision for their own securities has resulted in the establishment by many trust companies of departments for safe renters, both to secure a direct return from the expenditure occasioned by the erection of vaults for the companies' own use and to add to the convenience of their customers.

In the larger cities one finds separate companies doing only a safe deposit business, as well as safe deposit departments connected with banks and trust companies. In smaller places, separate organizations are not often found. The company assumes full responsibility for the safe-keeping of valuables, and the small fee which is paid for the service covers both storage charges and a practical guarantee against theft or other loss.

Where land is valuable, the safe deposit vaults are often in the basement of the building. They may also be more than one story in height, the basement vaults being devoted to the storage of bulky packages, and those on the main banking floor to the renting of safe deposit boxes. Each box — which is usually made of heavy japanned tin or light steel — fits into a compartment just large enough to contain it. The case in which these boxes are kept is made of steel and each door is fitted with a lock, which can only be opened by using two different keys. One key is retained by the company while the other is held by the safe renter. As no duplicate is kept of the renter's key, he should always be impressed with the necessity of keeping it safely, as its loss will require cutting open the lock at his expense. Access to the box can be secured only by the renter or his duly authorized representative in conjunction with a representative of the company. Boxes are made of different sizes to suit the needs of customers. They are usually about 21″ long, with varying height and

width. The smallest boxes are about $1\frac{1}{4}''$ high by $4\frac{1}{2}''$ wide, inside measurements. The rentals vary according to the size of the box or safe, the smallest sizes costing but a few dollars a year. Larger sizes are provided for the use of bankers and corporations, the rental of which may amount to several hundred dollars per annum.

There should be an ample force to guard the vaults both day and night, and during business hours to attend to the wants of customers. It is customary to have a locked grill door at the entrance of the safe deposit department, at which a watchman is stationed who admits only those entitled to enter. In addition, the door can be fitted with an electric locking attachment operated from the desks of the employees who are stationed at various points. These employees should always be of good address, courteous and obliging, and of undoubted honesty. They should, of course, be under bonds. While the vaults are open, the department should never be left without an adequate force of attendants.

The safe deposit department should be furnished with ample facilities for the customers' convenience. There should be rooms for committee and other meetings, as well as individual desks properly protected, or small private rooms for coupon cutting and examination of securities. There are usually special apartments for ladies. Stationery, envelopes, coupon-cutters, scissors, rubber bands, and other conveniences are provided for the use of customers. In many companies the waiting rooms attached to the safe deposit department are attractively furnished and are supplied with newspapers, periodicals, stock sheets, and sometimes with a ticker and telephone service.

The safe deposit vaults are usually open to the general public only during banking hours unless it is necessary to open a trifle earlier and close a little later on account of the bankers, brokers, and other customers whose boxes must be in their offices during the same business hours.

A record is often kept of all persons entering and leaving the department, and of the number of the box visited. In times of panic or great stock market activity, it has sometimes been found impossible to keep such a record without unnecessarily delaying the customers. As soon as the box is returned to its place, an attendant examines the desk or room occupied by the customer, to see if anything has inad-

vertently been left and to prepare it for the next occupant. This is the more necessary when, as sometimes happens, the forgotten article is not a cane or an umbrella but a thousand-dollar bond. By means of the record of visitors and examination of desks, it is almost always possible to locate the owner of lost property. It helps, too, to refute the occasional charge that a valuable paper was forgotten or lost during a visit to the department, a charge which usually ends in the document being found in its proper place. The attendants should never consent to take care of open boxes while their owners temporarily absent themselves, but should always insist on the boxes being returned to the vault, even if they are taken out again in a few minutes. The safe renter should always see his box opened and closed, and while out of the vault it should be constantly under his eye.

Owing to the great value of the contents of public safe deposit vaults, their management must be such as to provide every possible precaution to prevent loss. When legal questions arise as to rights of and liability to box renters, action should be taken under advice of counsel. Access should never be permitted except to the box renter, his deputy or legal representative. In the case of corporations, properly authenticated authority must first be presented and, except to look for a will, no access to the box of a deceased renter should be permitted until the executor or administrator has presented a proper certificate of his appointment. When the ownership of property contained in a safe deposit box is in dispute, prompt steps should always be taken, by legal process if necessary, to determine the rightful owner.

If two or more persons must appear together in order to obtain access to a box, a label with the number so required should be attached to the front of the box. The company assumes such full responsibility in regard to these details that great care must be taken to prevent errors.

In addition to securities, which form the largest part of their contents, safe deposit boxes are made the receptacle of all sorts of objects having intrinsic, sentimental, or other value — from a lace handkerchief to the ashes of a deceased relative. During the McKinley-Bryan campaign, large quantities of gold were hoarded in safe deposit boxes, and it is not uncommon after the death of a safe renter to find in his box gold, bank notes, or bonds bearing coupons long since overdue.

Among the most curious visitors to the department are those with whom the accumulation of wealth has become a mania and who come daily to see and finger their securities. Many persons deposit their wills in their safe deposit boxes; indeed, this is the place where such papers are usually first sought for.

Special vaults are often provided in which boxes containing title papers and other matter of more bulk but less value than stocks, bonds, and jewellery, can be left for safe-keeping and at the same time be easily accessible. In other vaults, trunks and cases containing silverware, books, works of art, and other personal property are stored.

Engravers and publishers often place their steel, copper, or electrotype plates in safe deposit vaults when their own buildings do not afford the needed protection, and manufacturers avail themselves of this protection for models, patterns, and assets of all sorts which are liable to damage or loss through fire or theft.

Some safe deposit companies also issue certificates of deposit covering securities left in their hands for safe-keeping. An engraved certificate reciting the terms of the deposit and enumerating the items received is given the owner, and the securities are only deliverable on the return of the certificate. If an individual owns a single bond, the cost of a certificate of deposit is less than the rent of a box, and in case the security is needed it can be procured by express or registered mail through the return of the certificate properly indorsed. In the case of coupon bonds, the safe deposit company may also agree to cut the coupons as they mature, and hold them ready for delivery. The charges for such deposits of securities are based on the character of the property. Coupon bonds and other securities transferable by delivery are taken at a higher rate than stocks and registered securities. Gold and silver coin and bullion, jewellery and precious stones, are charged for according to value and space occupied.

As the business of the safe deposit department is simple, its books and records need not be complicated. The card index is well suited for most of its records, although sometimes large and handsomely bound books are preferred, as they are usually in the view of customers and present a more attractive appearance, and as the employees of the department are generally not pressed for time. It is, however,

best to have the simplest form of accounts in order to obtain the most accurate results.

All cash receipts should be paid to the receiving teller, and rebates should be paid out by the paying teller. If more convenient, the trust department receiving teller or the note clerk can act as the cashier of the safe deposit department. The general principle that records and cash should not be in the hands of the same individuals should, however, be observed.

The system of records here described is that of the safe deposit department of a trust company. When safe deposit vaults are run as an independent business, a set of general books is also required.

One system of records is used, its details being adapted to the somewhat differing requirements of the two main divisions of the business, — the renting of safes and deposit of valuables.

In companies where securities are received for safe-keeping and certificates of deposit are issued against them, the same forms are used as in the case of the storage of packages containing valuables, with necessary verbal changes. As such deposits are not often received, trust companies usually preferring to encourage the owners of securities to open attorney accounts in the trust department, it does not seem necessary to go into further details in regard to them.

RENTING OF SAFES

As soon as the identity of the customer is satisfactorily established and a decision has been made as to the size of the safe desired, the rent is paid and a receipt is issued in which are stated the limitations of liability assumed and the rules subject to which the safe is rented. The receipts are numbered consecutively and bound in books with stubs attached, or else with alternating thin leaves on which a carbon copy is taken.

In some companies it is the practice to issue this receipt in the form of a contract or lease. The actual wording of this, as of all other safe deposit forms, should be passed on by counsel, before adoption. Most of the records of the department are, for convenience, kept on cards 4″ x 6″ in size.

At the time a safe is rented, a receipt and identification card is signed by the customer, acknowledging that he has received the keys

for the box and the receipt for rental, and agreeing to its terms and conditions. At the bottom of the card is a brief statement which is

RECEIPT FOR RENT OF SAFE. — [Front]

THE MODERN TRUST COMPANY

No._____ _____ 190_

RECEIVED from _____

_____ Dollars for rent of Safe No.____ in the Vaults of this Company, from _____ 190 to _____ 190_, during which term, subject to the conditions and regulations indorsed hereon, it shall be the property of the lessee. The liability of the Company, by reason of the letting, is limited to the exercise of their accustomed diligence to prevent the opening of said Safe by any person other than the lessee or his duly authorized representative, and is assumed upon the express agreement that such opening shall not be inferred from proof of partial or total loss of the contents.

$_____ _____

Safe Deposit Supt.

[Back]

1. All rents of Safes are payable in advance. If the Lessee of a Safe, at the expiration of any term, or upon an earlier termination as hereinafter provided, shall not renew such renting, and shall fail to give up possession of the Safe, the Company shall have the right, at the end of fifteen days after mailing notice of their intended action to the address of the Renter, or after direct service thereof, to forcibly open the Safe of such Renter, in the presence of an officer of the Company and of one other witness, and to remove the contents therefrom, and to hold and retain the same on special deposit, — subject to the payment of all rent that may be unpaid, and to a charge for the use of the Safe after the ending of the term, proportioned to the annual rent, and of all expense incurred in opening the Safe and changing its lock and keys, and also for the safe keeping of the contents after their removal from the Safe.

2. The Company reserves a right to terminate at any time the renting and possession of the Safe, upon its notice, mailed to the address of, or delivered to, the Renter, or to the Deputy, or to any other legal representative, and upon the surrender of the keys of the Safe and the removal of its contents, a due proportion of the rent received will be refunded.

3. Access shall be had to the Vault daily from 9 o'clock A.M. to 4 o'clock P.M., except on Sundays and legal holidays and on Saturdays after 12 o'clock noon.

4. No person other than the Renter, or approved Deputy, or legal representative (in case of the death, insolvency, or other disability of the Renter), shall have access to the Safe, excepting as herein expressly stipulated.

5. The Renter or proper representative will not be permitted to enter the Vault, unless in presence of a Vault clerk, and only two Renters will be allowed therein at the same time, unless the Company may see fit to admit more.

6. Each Safe will be furnished with a new lock upon every change of its renting, and on its surrender the keys must be returned. The cost of replacing a lost key will be paid at once by the Renter.

7. Boxes must not be opened, or papers examined, within the Vault, but in the rooms provided for such purpose.

signed by the renter when the box is surrendered and the contents have been removed.

The other side of the card is devoted to the safe number, the name and address, and the description of the renter which is recorded for purposes of identification. It is better to note fixed facts rather than possibly changing personal characteristics such as color of hair, weight,

etc. The amount of information taken varies greatly in different companies. The place and date of birth and names of parents, in addition to the customer's name, address, and occupation, are probably sufficient. A password is still sometimes used as a further means of identification.

RECEIPT AND IDENTIFICATION.—[Front]

Date,_____ 190_

Received from THE MODERN TRUST COMPANY a receipt for rent of a Safe numbered_____, which is leased by _____ subject to all the rules and regulations of said Company as indorsed on said receipt, and to all such other reasonable rules and regulations as may hereafter be adopted.

_____ also acknowledge having received _____ keys for said Safe.

WITNESS:

_____ _____

_____ hereby surrender Safe No. _____ and certify that _____ have removed contents of same.

_____

[Back]

Name, _____ Safe No._____

Address, _____

Business, _____

Place of birth,_____ Date of birth,_____ Password,_____

Name of father,_____ Name of mother,_____

Name,_____

Address, _____

Business,_____

Place of birth,_____ Date of birth,_____ Password,_____

Name of father,_____ Name of mother,_____

The identification side of the card is printed so that the description of two renters can be placed on it, as many safes are rented in joint names. The receipt and identification cards are white in color and are filed alphabetically by the renters' names. In the case of

two individuals renting a box as joint tenants, special forms are sometimes used specifying the rights of both or of the survivor to have access to or to surrender the box and to appoint deputies. These facts

APPOINTMENT AND IDENTIFICATION OF DEPUTY.—[Front]

Appointment of _____ Deputy.

Safe No. _____ Date, _____ 190—

_____ hereby constitute and appoint

_____

to be _____ Deput____, with power to open and have access to Safe No. _____ rented by _____ (or any other Safe that ____ may hereafter rent), in the Safe Deposit Vaults of THE MODERN TRUST COMPANY, and to dispose of its contents as freely as ____ could do ____, until ____ revoke this authority in writing.

WITNESS:

_____ _____ L.S.

_____ _____ L.S.

Date, _____

Above appointment of Deputy is hereby revoked.

_____

[Back]

Description of _____ Deputy.

Address, _____

Business, _____

Place of birth, _____ Date of birth, _____

Name of father, _____ Name of mother, _____

Password, _____ Signature of Deputy,

_____

WITNESS:

_____

can also be included in the rules printed on the receipt or contract issued when the safe is rented.

The card showing the appointment and identification of deputy is

used when the renter desires to give another person the right of access to his safe. One side of the card gives the form of appointment, signed by the renter, which authorizes the deputy to open and have access to the safe and to dispose of its contents until the authority is revoked in writing. Below is a space containing a revocation clause. The other side of the card gives the description and signature of the deputy, the data taken being the same as in the case of the renter.

This card should differ in color from the renter's receipt and identification card already described, and should be filed directly back of it. This index forms a complete alphabetical record of safe renters and their deputies.

Authority to enter a box should always be general and unqualified. Owing to its liability in case of error, the trust company should decline to accept orders authorizing access to procure a certain paper or security. The right of the deputy to have access to the box ends on the death of the safe renter.

Cash transactions are recorded on ledger cards bearing the name and address of the renter, number of the safe, date rented, rate and term. The ordinary ledger ruling is used, the card being wide enough to repeat it. There are columns for date and amount of rental due, and the date and amount of each payment. The cards are white, 4″ x 6″, each has a tab showing the month of expiration so that each month's bills may be made out without handling any but the cards for that period. The cards are filed numerically by safe numbers, and form an index of rented safes. The case in which all keys for unrented safes are kept takes the place of an index of safes available for renting.

Bills for safe rent should be mailed long enough in advance of the date of expiration to enable the customer to renew for another year or to give notice that the safe will be surrendered. The bill specifies the number of the safe, the term covered, and the amount due, with the added statement that the letting is subject to all the terms, conditions, provisions, and limitations of liability provided for in the original receipt.

At the same time that the bookkeeper prepares the bill he fills out a credit slip with the same data: name and address, number of safe, term, date, and amount due. These credit slips are passed to the

receiving teller or other officer to whom the rents are payable. The slips are printed on white cards, and are filed alphabetically by names. When the bill is presented for payment, the credit slip is taken from the index and compared with the bill. It is then stamped "paid" and is passed through as the teller's voucher from which all bookkeeping entries are made, the cash being placed in the general books to the credit of the safe deposit department and in the books of the department itself to the credit of the safe renter. When rebates are made, a charge slip is prepared in the safe deposit department giving the necessary details, and the cash is paid out by the paying teller.

CORPORATE RESOLUTION GIVING ACCESS TO INDIVIDUAL

Received _____, 190__

To THE MODERN TRUST COMPANY:—

At a meeting of the Board of _____ of the _____ held at _____ on the _____ day of _____, 190__, the following resolution was duly adopted:

RESOLVED, that _____ be and he is hereby authorized to have access to the Safe (No. _____) in the Vaults of THE MODERN TRUST COMPANY leased to this Company, until this authority is duly revoked, of which written notice shall be given to said Trust Company.

(ATTEST) (SIGNED)

(SEAL) _____ _____

Secretary. *President.*

When a safe is rented by a corporation, and by authority of its board, access is given to an individual, a certified copy of the resolution delegating such power should be required. The trust company should specify the wording for such a resolution and should require the certified copy to be on a form which it furnishes. A white card 4″ x 6″ can conveniently be used and can be filed behind the renter's receipt and identification card, exactly as in the case of deputies appointed by individual renters.

If the safe is rented by a corporation which by a resolution of its board permits one or more of its officers to have access to its box,

a certificate of election, duly executed and attested, should similarly be required and filed whenever there is a change of officers.

CORPORATE CERTIFICATE OF ELECTION OF OFFICERS

Received _____, 190__

To THE MODERN TRUST COMPANY:—

We hereby certify that the following named officers of the _____ Company, elected at a meeting held on _____, have duly qualified as such, and that there has been no change in officers since that meeting.

_____

_____

_____

(ATTEST) (SIGNED)

(SEAL) _____ _____

Secretary. *President.*

Other forms are often used to provide for cases when the customer cannot be present in person. Such forms are based on those already described, and as they provide for special cases do not affect the general plan of organization.[1]

DEPOSIT OF VALUABLES

Immediately on receipt of the trunk, box, or parcel received for storage, the package should be sealed so that it cannot be opened without breaking the seal. Exceptions to this rule must be made in the case of deposits to which frequent access is desired.

The certificate of deposit is bound and numbered in the same way as the original receipt for the rent of a safe. It specifies the nature of the deposit, its value, the term for which deposited, and the amount paid. The certificate also gives the conditions and regulations subject to which the deposit is received, including a statement on

[1] See Proceedings of Trust Company Section, American Bankers' Association, 1904; Report of Special Committee on the Classification of Legal Decisions relating to Safe Deposit Companies; Duty and Liability to Box Holders, and a compilation of the Rules and Forms of Typical Companies.

the part of the customer that it contains no certificates of stock, registered or coupon bonds, money, jewellery, or precious stones. On the certificate is also a form of receipt to be signed by the customer relieving the company of all liability on surrender of the deposit.

CERTIFICATE OF DEPOSIT. — [Front]

This certificate must be presented upon the withdrawal of the deposit or any part thereof.

THE MODERN TRUST COMPANY

No._____ Date,_____ 190—

This is to certify that_____ has deposited with THE MODERN TRUST COMPANY for safe keeping _____ said to contain_____ valued at $_____ for which the sum of $_____ has been paid to this Company.

In consideration whereof the said deposit is to be safely kept by this Company, subject to the conditions and regulations indorsed hereon, for the period of_____, and on the expiration thereof, or sooner if demanded by said depositor, it shall be returned to_____ in good order upon the surrender of this certificate and identification of the depositor if required.

_____

Safe Deposit Supt.

[Back]

1. It is agreed by the depositor that no certificates of stock, registered or coupon bonds, money, jewellery, or precious stones are contained in this deposit.

2. In case of loss of deposit, the option is reserved to the Company of either paying for it, at the valuation specified by the depositor, or of replacing it in kind or amount.

3. This certificate is not transferable except by assignment indorsed hereon and approved by the Company.

4. If the whole or any part of this deposit shall be withdrawn before the expiration of the specified period, a due proportion of the charge shall be returned, and if continued longer it shall be deemed a renewal of the deposit on the same terms, for which a like rate shall be chargeable.

5. This certificate shall be presented upon the withdrawal of the deposit or any part thereof.

Date,_____ 190—

Received from THE MODERN TRUST COMPANY the within mentioned deposit, and_____ hereby release said Company from all liability therefor.

_____

As in the case of safe renting, a receipt and identification card is signed by the depositor, acknowledging that he has received the certificate and agreeing to the terms on which it is issued. A form of release and receipt for the deposit is also printed on the card, for use in case of the loss or non-production of the certificate at the time the deposit is withdrawn.

The other side of the card contains the description of the depositor. The same form is used as in the case of safe renters, except that the certificate number is substituted for the safe number. The cards

RECEIPT AND IDENTIFICATION FOR VALUABLES. — [Front]

Date, _____, 190—

_____ hereby acknowledge the receipt of Certificate of Deposit No. _____ for _____ deposited by _____ in the Storage Vaults of THE MODERN TRUST COMPANY, valued at $ _____ and containing neither certificates of stock, registered or coupon bonds, money, jewellery, or precious stones, and hereby agree to the rules and regulations of THE MODERN TRUST COMPANY in force at this date and such reasonable rules and regulations as may be hereafter adopted.

_____

_____

Date, _____, 190—

Received from THE MODERN TRUST COMPANY the above mentioned deposit and _____ hereby release said Company from all liability therefor.

_____

[Back]

Name, _____ Certificate No. _____

Address, _____

Business, _____

Place of birth, _____ Date of birth, _____ Password, _____

Name of father, _____ Name of mother, _____

Name, _____

Address, _____

Business, _____

Place of birth, _____ Date of birth, _____ Password, _____

Name of father, _____ Name of mother, _____

are 4″ x 6″ in size, are filed alphabetically, and are of a buff color to distinguish them from the cards representing safes.

The appointment and identification of deputy card is similar to that already described, except that it is of a different color and applies

to a certificate of deposit instead of to a safe. The authority given is general and authorizes the deputy to open and have access to and dispose of the contents of the package covered by the certificate until the power is revoked in writing. It is filed immediately behind the depositor's card.

The ledger card is of buff color and is in all other respects like the safe rental ledger card, except that the number of the deposit replaces the safe number. The cards are filed numerically and have tabs showing the month of expiration.

The bills specify that they are for the renewal, until a given date, of the deposit of valuables covered by a certain certificate the number of which is given.

Credit slips are used like those already described, and in the same way. They are on buff cards and bear the number of the certificate instead of the safe number.

For purposes of identification a stout linen or manila tag should be attached to each package and bear the number and date of the certificate and name of the depositor.

As a matter of convenience to customers some companies now have motor delivery services of their own. Where this is not done, it is well to make arrangements with a local express company to call for and deliver valuables at a fixed scale of charges. A general agreement should be made between the trust company and the express company, defining the liability of each, and a written order should always be taken from the customer. A printed form should be used which contains an order on the customer to deliver to the express company the packages described. This is signed by its representative and given to the owner on receipt of the goods.

When valuables are delivered to their owners by the express company, a similar receipt is taken from the owner or his representative and is retained by the express company, which has previously receipted for the packages on receiving them from the trust company.

GENERAL BOOKS

The record of persons entering the department shows the date, name, number of safe or deposit to which access is had, and, if possible, the desk or room occupied. Such a record is valuable, and should be accurately kept.

THE MODERN TRUST COMPANY

Safe Deposit Department

Comparative Monthly Report for _____

SAFES	No.	Rental
Safes rented as per last report		
Add Safes rented during month		
Total		
Less Safes surrendered during month		
Total Safes rented this date		
" " " one year ago		
Increase		
Decrease		

CERTIFICATES OF DEPOSIT	No.	Charges
Certificates outstanding as per last report		
Add Certificates issued during month		
Total		
Less Certificates cancelled during month		
Total Certificates outstanding this date		
" " " one year ago		
Increase		
Decrease		

CASH		
Received from Safes rented and renewed (net)		
" " Certificates of Deposit issued		
and renewed (net)		
Total for month		

All safe deposit departments use one or more books in which a record is kept of rentals, renewals, and surrenders. A single book can be made to combine a cash book and a record of safes rented and surrendered, and valuables deposited and withdrawn. It contains columns for the date, name of customer, followed by sections covering rentals and renewals, surrenders, and a section in which the bookkeeper notes in the proper columns that the other entries resulting from each transaction have been made.

The "rentals and renewals" section contains subsections covering both safes and deposits. The former shows the number of the safe, whether a rental or renewal, the rate and period on which it is based in months, the date from which rental commences, and the amount paid. The section covering deposits is exactly similar except that "charges from" replaces "rental from."

The "surrenders" section is similarly divided, showing the safe number, rate, and period on which the rate is based, and amount of rebate, if any; deposit number, rate, period and rebate.

The remaining section shows that the transaction has been entered on the renters' or depositors' index, and the ledger card. The last column is for the controller's initials after the entries have been made and the bookkeeper has initialled the proper columns.

Each rental or deposit of valuables is entered from the stub of the receipt or certificate book. Cash entries are recorded from the credit or charge slips. The book is closed at convenient periods and the data thus obtained are used as the basis for comparative monthly reports. These reports show the number and value of safes rented, renewed, and surrendered, the value of certificates of deposit issued and cancelled, and the total business of the department, with the figures for the corresponding period of the previous year and the resulting increase or decrease.

CASH AND RECORD BOOK

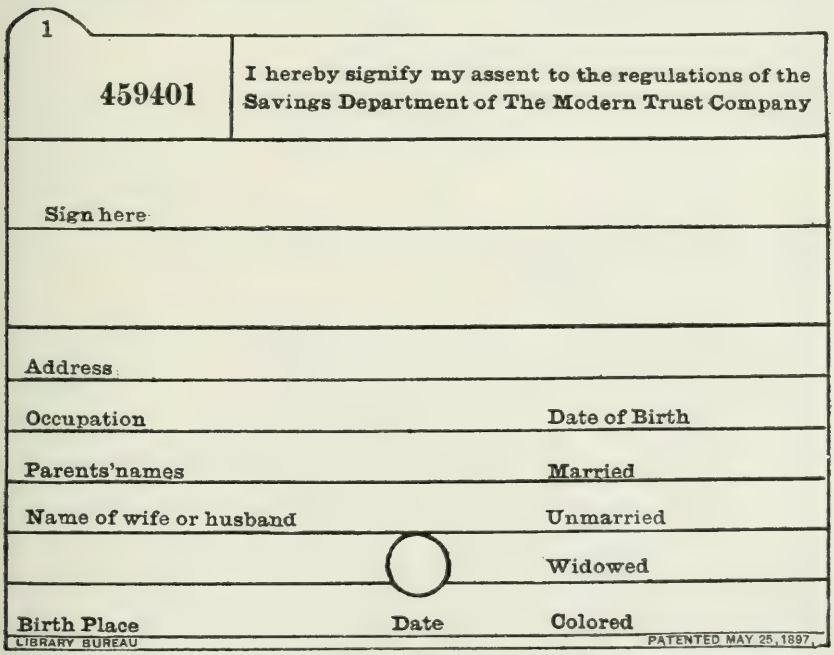
DATE	NAME	RENTALS AND RENEWALS											
		Safes					Deposits						
		No.	Rental or Renewal	Rate		Rental From	Amount Paid	No.	Deposit or Renewal	Rate		Charges From	Amount Paid
				Dollars	Months					Dollars	Months		

SURRENDERS								Entered in		Examined by Controller	Remarks
Safes				Deposits							
No.	Rate		Rebate	No.	Rate		Rebate				
	Dollars	Months			Dollars	Months					

CHAPTER X

SAVINGS FUND DEPARTMENT

In the large cities of the East, where savings banks have existed for many years, few trust companies have a savings department. In the West, especially, and in smaller towns, trust companies usually take savings deposits. Sometimes, as in the Illinois Trust and Savings Bank of Chicago, the savings department is the most important



branch of the company's business. In most trust companies, however, the savings deposits are not as large as the deposits subject to check.

For the care of savings deposits it is usually well to have a separate savings department. This department should always be clearly

indicated by signs, so as to prevent confusion between the customers of the banking and savings departments. In the savings department windows are provided for "New Accounts," "Receipt of Deposits," and "Withdrawals." The paying teller of the banking department may attend to the payment of withdrawals.

Accounts are opened at the "New Accounts" window, where a specimen of the depositor's signature is taken on a card, with other information which will serve as a means of future identification. These cards are filed numerically. Cards of closed accounts are kept as a separate index. The deposit book bears the number of the account and name of the depositor on the cover, and contains the rules and regulations. The cash pages have a date column and two cash columns for withdrawals and deposits, respectively. The depositor is required to present the book each time a deposit or withdrawal is made.

WITHDRAWAL NOTICE

$\$$ ---------- Payable, ----------

---------- 190—

To THE MODERN TRUST COMPANY,
SAVINGS FUND DEPARTMENT.

I hereby give ten days' notice for the withdrawal of

---------- Dollars,
according to the rules.

Book No. ----------

Name, ----------

Residence, ----------

Money due on a holiday paid the preceding day.

This notice will be cancelled if money is not withdrawn within 30 days from date.

It is a common although not a universal practice to restrict the amount which can be deposited in a savings account each year, and to fix a maximum limit for the account. When a deposit is made, a deposit slip is filled out, if possible by the depositor, with the number of the account, name and address of the depositor, date, and amount of deposit. The book, with the deposit and slip, is passed to the

savings department receiving teller, who enters the amount and returns the book to its owner. The receiving teller lists the amounts of the deposit slips on an adding machine before passing them to the bookkeeper. The total shown by the adding machine settles with the cash received and with the assistant bookkeeper's scratcher.

WITHDRAWAL SLIP Book No._____

THE NUMBER IS ON THE COVER OF YOUR BOOK

Write the amount you wish to draw out in PLAIN FIGURES.
Dollars under the word "Dollars," Cents under the word "Cents."

DOLLARS	CENTS
$	

BRING YOUR BOOK

WE DECLINE TO PAY UNLESS YOU DO.

WRITE HERE THE AMOUNT VERY PLAINLY IN WORDS.

ALWAYS SIGN AS YOU DID AT FIRST.

_____ 190—

RECEIVED OF

THE MODERN TRUST COMPANY

SAVINGS FUND DEPARTMENT

_____ DOLLARS

SIGNATURE_____

PRESENT ADDRESS_____

EXAMINED BY PAID BY ENTERED BY

Savings accounts are not subject to check. The savings department either requires, or reserves the right to require, notice before withdrawals are made. When such notice is given, the amount to be withdrawn and other particulars are written on a card. These cards are filed by payment dates and account numbers, and are destroyed by the withdrawal clerk after payment has been made. When the depositor comes to get the money, he fills out a withdrawal slip with the date, account number, name and address of the depositor, and amount received. The withdrawal clerk compares the signature on the withdrawal slip with the specimen on file, satisfies himself as to the identity of the depositor, and initials the slip to show this fact. The deposit book and slip then go to the bookkeeper, who examines the balance on the ledger card and, finding it sufficient, enters the payment in the pass book and changes the balance on the ledger card.

LEDGER CARD

2

332022

Withdrawals		Deposits		Dates	Balance		

He at the same time initials the slip. The book and slip then go to the paying teller, to whose window the depositor has already been sent. After comparing the entry in the book with the amount of the slip and asking the depositor the name of the account and amount of the payment, the paying teller hands out the book and the cash and retains the slip as a receipt. If the entire amount on deposit is withdrawn, the pass book is retained by the company. The withdrawal slips are totalled on an adding machine. This figure becomes an item in the teller's settlement and agrees with the total shown by the assistant bookkeeper's scratcher.

The depositors' ledger is kept on cards filed numerically. The cards are ruled on both sides with columns for withdrawals, deposits, dates, and balances. The number and name appear at the top, and a projecting tab bears the last or unit figure of the account number. By the use of guide cards and these tabs, the desired card can quickly be turned to. Postings are made from the deposit and withdrawal slips. The bookkeeper changes the balance only. The assistant enters the date and amount of the item in the proper columns and examines the change which has already been made in the balance column. Withdrawals are posted in red, and the rulings of this column are also red. The deposits and balances are posted in black.

The scratchers, kept by an assistant, are ruled with columns for the account number, name, and cash. Separate scratchers are used for deposits and withdrawals. The items are posted from the deposit and withdrawal slips, and the totals for the day settle with the teller's figures.

When changing the balance, the bookkeeper inserts a blotter or slip. The assistant, after posting the deposits or withdrawals, makes a pencil footing of the column which has been changed. In this way the cards are always kept ready for a trial balance. Trial balances are taken off in blocks of from five to ten thousand accounts. Deposit and withdrawal footings as well as balances are taken off so as to make an additional test of the accuracy of the work.

Interest is allowed on even dollars and for calendar months only. The rate varies in different places. It is usually from three to four per cent per annum, and is added to the accounts semi-annually.

CHAPTER XI

LIFE, FIDELITY, AND TITLE INSURANCE AND SURETYSHIP

THE first corporations in this country authorized by law to act in fiduciary capacities were originally organized as life insurance companies. The insurance of lives and granting of annuities formed the mainstay of these older companies, while their trust business was in its infancy. The gradual tendency has been toward a separation of the two forms of business, so that now some companies bear witness to their original character only in their names, others still carry some insurance business on their books but take no new risks, while in recent years many companies in states having a general trust company law have reinsured their remaining insurance risks, have eliminated the word "insurance" from their titles, and have taken advantage of the provisions of the general law.

A few trust companies still conduct flourishing life insurance departments. In such cases the insurance department, although related to a certain extent to the banking and trust departments, has a separate organization, is subject to different state laws, and is supervised by the insurance departments of the states in which it does business. One highly successful company is organized as a stock corporation, but its life insurance department is on a mutual basis. In this case the insurance department bears the entire expense of the home office, including the cost of banking and trust departments. The statement is made that this is more than repaid to the policy holders by the benefits of such an intimate connection with the other departments. It is certainly to the advantage of the stockholders to have the expense account eliminated from the general profit and loss account. A trust company doing an insurance business is required by law to keep a special reserve to secure its policy holders.

Other forms of insurance now more often found in connection with trust functions are fidelity insurance and the business of acting as surety on official and other bonds, and title insurance. Until

twenty-five years ago nearly all fidelity insurance, or guaranteeing of the honesty of public officials, officers and employees of corporations, etc., was done by giving the personal bonds of individuals owning real estate. As soon as the advantages of a corporate guarantee were realized, it was but a short step to fidelity insurance, and the business of becoming security on bonds required by law, conditioned for the faithful performance of contracts and other obligations. The only obstacle to fidelity insurance was a prejudice in favor of the personal bond; in the surety business, public sentiment had to be aroused and laws enacted before the corporate bond could be accepted by the courts. Many trust companies which have done a fidelity or surety business in the past are either taking no new risks or are assuming no obligations of this character except when fully protected by counter indemnity constituting adequate security for the risk assumed.

Another development of the insurance idea has been its extension to real estate titles. The title insurance companies have vastly simplified real estate transactions. Laboriously made and costly searches and briefs of title, accompanied by an opinion of counsel, are done away with, and a guarantee against possible loss issued by a corporation of recognized financial standing, supersedes an individual opinion as to the validity of the title. The corporate conveyancer now occupies a position in the business community as well recognized as that of the corporate trustee.

A fully equipped title insurance company has in its possession an abstract of every deed, mortgage, sheriff's sale, and lien of record relating to each property in the district in which it operates. These records are its stock in trade and enable it rapidly and accurately to prepare abstracts, make searches, and attend to the multifarious details of real estate transfers. The title company can prepare the title papers, make the settlement and issue its settlement certificate, put the deeds and mortgages on record, and guarantee the validity of the title. Its office force includes both lawyers and conveyancers, whose technical knowledge is requisite to a successful conduct of the business.

Even where the Torrens system[1] of registration of real estate titles has been put into operation, the business of the title companies

[1] See p. 176.

still flourishes. This is explained by the large number of transfers still made by the old methods, and by the fact that the municipality must procure from a title company the usual abstract before a title can be recorded for the first time under the Torrens system.

In some states, trust companies are permitted to do a title insurance business, in others the exercise of the two functions is prohibited. In Pennsylvania, title insurance has been successfully combined with trust functions. The National Bank Act provides that corporations may be formed in the District of Columbia for the purpose of carrying on any one of the following classes of business: —

"FIRST: A safe deposit, trust, loan, and mortgage business.

"SECOND: A title insurance, loan, and mortgage business.

"THIRD: A security, guaranty, indemnity, loan, and mortgage business; *Provided*, That the capital stock of any of said companies shall not be less than one million dollars: that any of said companies may also do a storage business when their capital stock amounts to the sum of not less than one million two hundred thousand dollars." [1]

The act thus prohibits the exercise of trust functions and the assumption of insurance risks by the same company.

The gradual development of the trust company idea along other lines seems to demonstrate that a company devoted to the care of estates should not assume future obligations, such as an insurance business entails. The maintenance of an insurance department, however successful, is not likely to act as an argument in favor of the appointment of the company as executor or trustee. The wonderful growth and development of insurance companies in this country have resulted from the organization of the great corporations devoted solely to insurance, and the present tendency toward a separation of insurance from general trust business seems likely to continue.

The profits of insurance of any kind depend on the volume of business as well as on its management, and in this element of success, too, the large insurance company has an advantage over the trust company which, as one of its many functions, carries on an insurance business on a limited scale.

[1] "The National Bank Act as amended, etc." Compiled under the direction of the Comptroller of the Currency, 1911.

CHAPTER XII

GENERAL ACCOUNTING

THE CONTROLLER

No matter how perfect the system upon which the business of a trust company is conducted, its practical application is in the hands of officers and employees who are only human and therefore liable to make mistakes. Some may become unprogressive in their methods, while others may be too eager to introduce changes, which though attractive from the standpoint of one department do not properly fit into the general plans of the company. It therefore becomes necessary to lodge in some one person or group of persons the authority to maintain and supervise the accounts and records of the company.

In a small company the work may be done by the general officers with the assistance of the general ledger bookkeeper. In a large company the general officers are properly relieved of such duties. Another officer, known as the controller, or sometimes as the auditor, is engaged. This officer becomes the final link in the bookkeeping chain, and his authority should extend to all departments of the company. Changes in accounting methods that are at all radical should be submitted by him to the general officers, and in some cases action by the board of directors is advisable. Continuity of policy and uniformity of records are prime requisites in the permanent success of any business, and while a trust company should always be progressive and ready to adopt genuine improvements, it should not be continually making changes that are of uncertain value. When once a satisfactory system is installed, it should be maintained reasonably intact. If it is based upon proper principles, further improvements will be in the nature of a development rather than an alteration, and as such may be readily introduced.

It is a part of the controller's duty to see that the system adopted is faithfully carried out in all departments, and by every employee.

At the same time he should be constantly on the alert to detect weaknesses and to discover means of saving labor and securing more accurate records. To do this, a man must possess a good knowledge of accounts and considerable force of character, coupled with a large degree of tact. He should be appointed by the board of directors and be directly responsible to the president for the proper discharge of his duties. No changes in the accounting system should be made by any clerk without the approval of the controller, and only the president and the board should have the right to direct that changes be made contrary to his judgment.

The controller should prepare, or at least approve, all reports or statements issued to the public or compiled for the use of officers and directors. He should verify the settlements of depositors' accounts and the statements rendered to beneficiaries by the trust department. He should examine and initial all entries for the receipt and delivery of securities owned by the company or held by the trust department, and he should be authorized to make at frequent intervals, but without previous announcement, examinations of all the departments of the company. In these examinations he should rely mainly upon comprehensive tests which he can make without attempting to verify each item. It should also be a part of his duty to approve, before payment, all vouchers for expenses, repairs, etc., whether for the company's account or for the accounts held in the trust department. The controller's work, if done efficiently, will serve as an internal check upon the work of the office, and go far to detect and correct clerical errors which, if allowed to pass unnoticed, detract from the reputation of a company and at times prove a cause of serious financial loss. In addition to this, his constant oversight and firm grasp of the details of the company's business will, in most cases, restrain an officer or employee from taking the first false step to disgrace and ruin.

COMPANY'S GENERAL LEDGER

The results of the company's business in all its departments are brought together in the general ledger. The accounts should be so arranged that trial balances can be taken off at a moment's notice, and the real condition of the company be clearly and fully shown without rearrangement or analysis of figures.

The order of the accounts in the ledger is determined by the order in which they should appear on the balance sheet. Under the two main divisions of principal and income, credit accounts come before debit accounts. The quicker assets head the list. The exact names of the accounts may vary, but they should always be the simplest that will clearly denote the purpose for which the account is opened.

In the general ledger of every trust company, most of the following accounts will be found: —

PRINCIPAL

Assets	*Liabilities*
Cash	Deposits subject to check
Demand loans	Due to banks and bankers
Time loans	Special deposits
Commercial paper	Savings deposits
Stocks	Certificates of deposit
Bonds	Certified checks
Mortgages	Dividends unpaid
Postage stamps	Accrued interest payable
Accounts receivable	Expenses payable
Accrued interest receivable	Taxes payable
Real estate	Bonds
Banking house, furniture, and fixtures	Capital stock
Taxes paid in advance	Surplus
	Undivided profits

INCOME

Expenses	Interest receipts
Taxes	Commissions
Interest paid depositors	Safe deposit rentals
Errors in cash	Errors in cash
Profit and loss	Profit and loss

" Cash " is one of the most active accounts, and as it is the quickest asset, appears first on the list. All cash, whether on deposit or in the company's vaults, is carried in this account. In the daily cash report the amount is itemized to show notes, specie, and checks in vault, and the balances on deposit in other banks.

Next in order are " demand loans," " time loans," and " commercial paper." The details of the various sorts of loans are shown in auxiliary books. The commercial paper account is often called "bills receivable" or "bills purchased." The notes which it represents are

usually unsecured, although occasionally they are accompanied by collateral.

Then come the permanent investment securities, "stocks," "bonds," and "mortgages." A detailed record of these securities is kept in an auxiliary set of ledgers. Real estate loans are carried in the mortgage account. Ground rents, such as are found in Philadelphia, are included under the general head of mortgages in statements to the commissioner of banking, but are usually carried in a separate account on the books of the Philadelphia trust companies. When a trust company issues its obligations, secured by mortgages held specifically as collateral security, a separate account "mortgages to secure bond issues" appears in the general ledger.

Postage stamps when purchased should be charged to a "postage stamps" account. A petty postage stamp book can be kept, in which both cash sales and deliveries to the various departments are recorded. The total cash sales and the amount of stamps delivered are credited monthly to the general ledger account, while each department is charged through the expense account with the cost of the stamps it has used.

"Accounts receivable" can be made a receptacle for assets of uncertain value.

"Accrued interest receivable." This account is charged by journal entry at the end of each month with the proportion of interest which has been earned on investments and loans during the month, and at the same time the income account "interest receipts" is credited with the same sum. The object of this entry is to credit earnings each month with the proportion of income actually accrued instead of with the items which happen to be paid. The accrued returns on each class of investment are shown in itemized form in the auxiliary ledgers.

It is well to show real estate held for investment purposes separately from that occupied by the company's office. The "real estate" account shows the total book value of all real estate owned by the company, exclusive of the building it occupies.

"Banking house, furniture, and fixtures" represents the cost of these items. The value of land, building, furniture, and fixtures may be separated if desired. A further subdivision may also be made to show the cost of safe deposit vaults, title plant, branch offices, etc.

"Taxes payable." The balance in this account may appear on either side of the ledger. All taxes when paid are charged against this account. When the balance shows as an asset, it represents taxes paid in advance. When the balance appears as a liability, it represents the taxes that have accrued and are unpaid. This account is credited at the end of each month with approximately one-twelfth of the year's taxes, while the expense account "taxes" is charged with a similar amount. At the end of the year any balance in "taxes payable" is brought down as an item belonging to the succeeding year.

"Deposits subject to check" gives the net amount due individual depositors as shown in detail in the individual depositors' ledgers. If more than one class of deposits are received, the best plan is to have separate ledgers for each class of deposits and to show the balance of each in the general ledger, so that the company's liability on account of funds subject to check, court accounts, or other special deposits, can be ascertained from the general balance sheet.

"Due to banks and bankers." Deposits received from other financial institutions should be carried separately from the ordinary individual check accounts, as they are a very quick liability and may be drawn against in large sums, particularly when funds are scarce. It is therefore necessary to provide an ample reserve against this class of deposit and to watch carefully its fluctuations as shown by the general ledger balance.

Special deposits are often received and held subject to agreements which preclude their being classed with the ordinary deposits. Such items are kept in a "special deposits" account, or they may be included with certificates of deposit.

As savings deposits are not subject to check, and as a higher rate of interest is paid, it is necessary to show the net liability on account of savings deposits separately from the other sorts of deposits.

"Certificates of deposit" represents special deposits, not subject to check, the obligation being issued in favor of the depositor or according to his direction, and being payable on demand or in accordance with the agreement on the face of the certificate. The general ledger account is credited with all certificates issued and is charged with those paid. The balance of the account represents the

amount of outstanding obligations as shown by the stubs of the certificate of deposit book or by an auxiliary ledger.

"Certified checks." When a check is certified it is charged against the depositor's account and credited to the general ledger account. When the check is finally paid, the amount is charged against "certified checks."

On the date when a dividend is declared, a journal entry is made charging undivided profits and crediting "dividend account" with the amount of profits to be distributed. As a matter of convenience, it is well to open a separate account, numbered to correspond with the number of the dividend declared. Payments made on account of dividends are charged to the account of the dividend to which they belong.

"Accrued interest payable" is credited by journal entry at the end of each month with the amount of interest accrued on the various classes of deposits. By the same entry "interest paid depositors" is charged with a similar amount. The balance standing to the credit of "accrued interest payable" represents the liability for interest accrued and unpaid. When interest is credited in the depositors' accounts, the total is charged against this account and credited to "deposits subject to check," or any other class of deposits on which interest is being paid.

"Expenses payable." The balance to the credit of this account represents the amount of unpaid bills. At the end of each month, the total amount shown by the record of expenses is credited to "expenses payable" and charged against "expenses." All expense payments are charged against "expenses payable." By this method all expenses, whether paid or not, are charged against the period in which they are incurred, and the unpaid balance is shown in this account.

"Taxes payable" has already been described. When the balance appears as a liability, it represents the amount of taxes accrued but not yet paid.

When trust companies issue bonds secured by mortgage or other collateral, the total amount of the issue is shown in a general ledger account. Such bonds are a direct obligation of the trust company, whose profit consists in the difference between the rate of interest it pays and that which it receives on the mortgages or other securities in which the proceeds of the sale of the bonds are invested.

"Capital stock" and "surplus" represent the permanent capital employed in the business.

The "undivided profits" account represents all undivided profits except those in the surplus account, unless another account is opened for profits held as a special reserve. "Undivided profits" is credited at the close of each fiscal year with the net profits as shown by the profit and loss account.

"Interest receipts" is credited with all interest received on loans and investments, including income from real estate. It is charged with payments for interest accrued on investments at the time of purchase and other similar items. At the close of the fiscal year the balance is credited to the profit and loss account.

In the "commissions" account receipts from special departments, such as the trust or title department, are credited. Special income receipts, such as commissions on account of underwriting syndicates, etc., are also credited to this account, and in general such items as are distinct from the ordinary returns from investments, and yet not of a character to be properly credited directly to profit and loss.

"Safe deposit rentals" are entered as a separate item so as to show the return upon the capital invested in the safe deposit department.

All "errors in cash" are charged or credited to this account, as the case may be. The totals of both sides of the account should be shown on the monthly balance sheets.

The "profit and loss" account is credited with all gains on investments when sold and charged with all losses on investments. At the close of the fiscal year it is credited with all income in the way of interest, commissions, or other receipts, and is charged with the balance of expense and taxes accounts. A charge may also be made for depreciation of the building and equipment. The balance of profit and loss account, representing the net gain or loss for the year, is closed to undivided profits as noted above. These closing entries are made through the journal and should be accompanied by a full explanation. Except in the final balance sheet for the fiscal year, the profit and loss account should be shown on both sides of the balance sheet so as to avoid any danger of giving a false impression. Unless this is done, a credit balance of $25,000 might equally well

represent a gain of that amount or losses of $30,000 offset by gains of $55,000.

"Expenses." A journal entry is made on the last day of each month, charging "expenses" with the month's total as shown by the record of expenses and crediting "expenses payable." The expense account is credited for amounts received for check books, printing, express charges, etc., as shown by a petty cash receipts book, and the balance of the account is charged at the end of the fiscal year to profit and loss account.

"Taxes." On the last day of each month a journal entry is made, charging "taxes" and crediting "taxes payable" with one-twelfth of the approximate taxes for the year. The taxes account then shows the actual amount of taxes chargeable against the business. At the close of the fiscal year the total is charged to profit and loss.

"Accrued interest payable" is charged by cash entries with interest paid to depositors. By journal entry at the end of each month, "interest paid depositors" is charged and "accrued interest payable" is credited with the amount of accrued interest as calculated on the average daily balances of total deposits. At the semi-annual interest periods the entry is adjusted to agree with the amount of interest actually paid. "Interest paid depositors" is charged to profit and loss at the end of the fiscal year.

Additional accounts which have to be opened to fit the requirements of special lines of business should be made as far as possible to conform to the general system.

The general ledger should be closed only at the end of the fiscal year, when all the balances of both debit and credit income accounts are transferred by journal entry to profit and loss, and the balance of profit and loss is transferred to undivided profits. In this way all the income accounts are closed out preparatory to starting the business of the new fiscal year.

Postings in the general ledger are made from a cash book and journal. The cash book has separate columns for the most active accounts and a miscellaneous column for inactive accounts. The journal should be small, as its entries are comparatively few. Most journal entries are made at the end of each month and the close of the fiscal year. The general ledger bookkeeper's work may include simply the books in which the results of the business are assembled,

COMPARATIVE DAILY BALANCE SHEET. _____ 190____

ASSETS	_____ 190__	_____ 190__	Increase over yesterday	Decrease over yesterday
Cash				
Demand Loans				
Time Loans				
Commercial Paper				
Stocks				
Bonds				
Mortgages				
Postage Stamps				
Accounts Receivable				
Accrued Interest Receivable				
Real Estate				
Banking House Furniture and Fixtures				
Taxes Paid in Advance				
Total				
Net Change in Assets				
Total				
LIABILITIES				
Individual Deposits subject to Check				
Due to Banks and Bankers				
Special Deposits				
Savings Deposits				
Certificates of Deposit				
Certified Checks				
Dividends Unpaid				

Expenses Payable	
Capital Stock	
Surplus	
Undivided Profits	
Earnings for current year as detailed below	
Total	
Net Change in Liabilities	
Total	

EARNINGS FOR CURRENT YEAR TO 190 INCLUSIVE.

INCOME	
Interest Receipts	
Commissions	
Safe Deposits Rentals	
Errors in Cash	
Profit and Loss	
Total	

EXPENSES	
Expenses	
Taxes	
Insurance	
Interest Allowed Depositors	
Errors in Cash	
Profit and Loss	
Dividend 190	
Undivided Current Earnings	
Total	

or it may be expedient also to put under his care some of the closely related sets of auxiliary books in which the records of the company's investments are kept.

The time spent in taking off a daily trial balance is more than repaid by the immediate detection of errors. For a small trust company a trial balance book or daily statement is usually sufficient. In this the names of the general ledger accounts, written or printed in the left-hand margin, are followed by the daily balances in a series of vertical columns, one column for each day. In a large company, where detailed information is needed, a comparative daily balance sheet is more satisfactory than a simple trial balance. The sheets, kept in a binder or on a file, are bound at the end of the fiscal period. In the first column are the names of the general ledger accounts, assets and liabilities at the top of the sheet, income and expenses in a separate section below. The four cash columns show the balances at the close of the previous day's business, the balances at the close of the current day's business, and the increases and decreases over the previous day. Below the total of assets is a line for "net change in assets." Yesterday's total of assets settles with to-day's total by adding the net change to the smaller of the two totals. The gross increases and decreases are also made to settle by adding the net change to the smaller total. In this way the correctness of the postings is proved. Net earnings for the current year appear as a liability. The totals of yesterday's and to-day's liabilities are settled by adding the net change, as in the case of assets.

The income and expenses section of the balance sheet gives the earnings for the current year to the date indicated. The difference between the total income and total expenses shows the amount of undivided current earnings. The expenses and net earnings settle with the gross income. Dividends declared and paid from current earnings appear just above the undivided balance of earnings.

By the use of a comparative daily balance sheet, the items which change from day to day and the resulting balances are instantly ascertained. If a daily trial balance is not taken off, the changes in current earnings, deposits, loans, and reserve are often followed by keeping an abstract of these accounts.

A comparative monthly balance sheet, showing the increases and decreases of the month, is also used. The only difference

between it and the daily sheet is the color of the paper, and the headings of the increase and decrease columns with a blank space for the dates instead of the word "yesterday."

A simple monthly balance sheet which can be kept in a small binder and be readily consulted without having to use the large comparative sheets, is often a convenience. The principal and income sections are arranged in two columns; in the principal section assets on the left and liabilities on the right hand side of the page, and in the income section earnings on the right and expenses on the left.

If the cash book is not readily available, a daily cash report is made out. The sheet is divided into three columns, — for receipts, payments, and cash balance at closing. In the first two appear the names of the more active general ledger accounts, with blank spaces in which the less active accounts can be written. Under loans, investments, etc., space is left to show the various items in detail. The total receipts for the day plus the balance at opening settle with the day's payments plus the balance at closing. In the third column, the cash balance at closing is analyzed to show the amount of notes, specie, and other cash items in the vault and the balance in each depository. The total deposits and percentages of reserves may also be shown.

In reports to stockholders there should be the fullest publicity consistent with the best business interests of the company. The practice of mailing copies of the report to the stockholders in advance of the annual meeting is to be commended, as the opportunity to examine the figures beforehand makes possible a more intelligent discussion of them at the time of the meeting. In published reports, clear, condensed statements are better than much detail. To make it easy for the stockholders and others to compare successive periods, the form of report should not be changed without good reason.

In reports of condition to the state banking departments, the forms provided in accordance with law must be used. As these statements are often published either by advertisement or in official reports, other public statements may well be based on them. Government regulation of banking institutions has done much in recent years to promote uniformity in bookkeeping methods. The names and order of the general ledger accounts may be modified to suit the

forms required by the authorities, and many tedious and elaborate calculations will be avoided if the books are so arranged that a statement of condition is merely a copy of the daily balance sheet.

AUDITS AND EXAMINATIONS

Fortunately most bank and trust company officials are true to their trust. That more are not so is, in part at least, due to the fact that examinations of securities and accounts are not made as frequently and thoroughly as they should be. The community gives but little thought to the bank officer who, often on a small salary and constantly subject to severe temptation, works on year after year with absolute fidelity. Occasionally among the thousands of such men one succumbs to temptation, and the newspapers exploit his ruin, which not only affects himself but often involves in serious loss the bank in which he has been employed.

As all banks are examined in some way or other, the public, in the event of a defalcation, is too ready to jump to the conclusion that all examinations are ineffective and serve only to give a false sense of security. Those who have devoted any study to the subject know that embezzlements of large amounts have occurred, almost without exception, in banks where, if examinations other than those by government officials have been made at all, they have been perfunctory and utterly inefficient.

Examinations of corporations doing a banking or trust company business are of two quite separate and distinct kinds: first, those made by representatives of a government department; and second, examinations made by or for the directors and stockholders. In the latter class may also be placed the examinations conducted under the auspices of clearing houses.

The public is more or less familiar with the examinations of national banks made by examiners representing the Comptroller of the Currency. In most of the states the banking laws provide for a commissioner of banking, or some similar official, who through his staff of examiners makes annual or semi-annual examinations of all trust companies. In addition to this examination, each company is required to furnish sworn statements of condition twice a year, and sometimes oftener, on days named by the state authorities.

This element of state control, which is of recent development, has resulted from the rapid growth and increased importance of

trust companies, and although opposed at first as an infraction of corporate liberty it is now generally recognized as both salutary and necessary. The state banking departments have done good service in checking what has seemed at times an almost mushroom growth, and in forcing weak companies to take proper precautions to safeguard the interests of their customers. In comparing the system of national bank examination with the methods of the state departments, it must be remembered that the national banking system has had more time to develop and that the trust companies, which have been springing up in such numbers of recent years, were at first almost without control, while they exercise broader powers and are more complex in their organization than national banks, and hence present greater difficulties to the examiner.

It is unfortunate that politics are so often involved in the appointment of examiners, who should always be trained men chosen for fitness alone. The examiner who begged a bank officer he was supposed to be examining to "go easy" with him as he had just been transferred from the position of oleomargarine inspector for the dairy commissioner, appreciated the humor of the situation and took the only possible steps to secure a first lesson in banking.

The officers of the state banking departments, whether experts or not, should have the good-will and coöperation of the trust companies under their jurisdiction, with resulting advantages to both. At the same time, the public as well as the directors of trust companies should bear in mind that examinations made by government officials do not have for their primary object the detection of clerical errors or of any except gross frauds. These examiners are employed to ascertain that the bank or trust company is doing business according to the laws under which it is chartered, and that it is not assuming functions or authority not granted to it. Further than this, the government examiner, whether state or national, usually counts the cash and examines the securities owned by the bank or held as collateral for loans, or, in the case of a trust company, held for the accounts in its trust department. They usually reconcile some of the more important accounts and make an examination that is, upon the whole, quite sufficient for the purposes of the government, which does not in any sense undertake to act as an insurance company to protect stockholders and depositors from a loss of their

investments. Government examiners have discovered many embezzlements, and, so far as the time at their command and the duties they are required to discharge will permit, they as a rule faithfully endeavor to protect the bank from loss wherever it may arise. It should, however, be recognized, as is frankly conceded by the best examiners themselves, that their work, though valuable, is entirely insufficient for the protection of the stockholders and the public.

In recognition of the necessity for other examinations, most banks and trust companies provide for examinations to be made annually, or more often, by the members of their board, by a committee of stockholders outside of the board, or by professional accountants — sometimes by a combination of two of these plans.

To be effective, the audit of a trust company must be made by some one reasonably familiar with the business of such a company, and with the methods usually found in such institutions. In addition to this, a comprehensive knowledge of accounts is essential, for only such training can give an examiner a proper grasp of the problems confronting him. The examiner should always keep in mind that the officers and employees of the institution he is examining are supposed to be honest, and should be treated accordingly; but at the same time he should never for a moment lose sight of the fact that his work is to discover error or fraud if it exists, and to produce such a moral effect upon those engaged in the bank or trust company as will deter them from carelessness or wrong-doing.

The man who contemplates stealing the funds of the bank in which he is employed, is desirous most of all of hiding his dishonesty, and in this he has the advantage of the examiner, inasmuch as he is working upon inside lines and has plenty of opportunity to study the methods of the examiner and to contrive means of circumventing him. It is not very difficult to discover the thief after he has wrecked the bank, but the ideal examination will reveal stealings in their incipient stage, and will make any successful manipulation of the bank's accounts so difficult and so certain of speedy detection that none but a reckless criminal would undertake it.

A good examination of a bank or trust company can be made by the board of directors, provided it is composed of men with ample time at their command and with sufficient technical knowledge and experience in accounting and banking methods, who are willing to

devote themselves to the work. An examination made by such men is not only good for the bank, but is also good for them as directors, in that it brings them into personal touch with the securities, records, and employees of the institution in a way not otherwise possible. The knowledge they acquire in the ordinary course of business as directors is helpful to them in making the examination and enables them quickly to understand entries upon the books.

An examination made by a board of directors may, on the other hand, by reason of lack of time or of technical skill, or both, be of little real value, causing trifling uneasiness to a dishonest employee and failing utterly to command the respect of men responsible for the property and accounts under examination. Directors who count merely the cash and securities put before them, and compare them only with the accompanying statement with which in any event the items are bound to agree, and who do not also carefully verify the records of the company to prove that all the property and earnings are being fully and clearly accounted for, are indulging in a solemn farce and almost putting a premium upon carelessness and dishonesty.

The strongest argument against examinations by directors is the fact that men of affairs may not be familiar with accounting methods or accustomed to handling cash or examining securities, and so may fail to recognize errors which would be readily detected by a trained accountant.

Examinations made by stockholders outside of the board of directors are open to much the same objections as examinations made by directors, and are subject to the further criticism that the stockholder does not even possess the director's personal knowledge of the company's business. If, however, a committee of stockholders can be secured, consisting of men who are familiar with banking practices, and who are accustomed to dealing with accounts, an examination thoroughly made by them may be very valuable.

Directors of financial corporations are often busy men engrossed by interests other than those of the institutions which they are called on to direct. They are conscious that they lack the required skill, and that in any event the demands upon their time preclude the possibility of their making a thorough examination. At the same time, such men usually realize very keenly the responsibility resting upon them,

and are most desirous that the funds of the corporation shall be carefully safeguarded. They also feel that an obligation rests upon them to remove so far as possible all temptations from the officers and employees engaged by them. It is their desire that their company shall conduct its business expeditiously and economically, and at the same time keep an absolutely accurate record of its transactions. Such directors, realizing their inability to deal with the situation in person, do what they are accustomed to do in their own business affairs when they find themselves similarly situated — they look for some one who can make the examination for them. It has consequently come to be a common practice for directors of large institutions to delegate the work of examinations wholly or in part to public accountants.

As legislation is now providing a body of certified public accountants in the leading states, who after fulfilling rigid legal requirements are duly admitted to the practice of their profession, and who are subject to severe penalties in the event of delinquency, it is comparatively easy to distinguish between capable, responsible accountants and those not so qualified. A certified public accountant in active practice is almost certain to have not only a good knowledge of banking and of the requirements of the courts in respect to accounts, but also a knowledge of general business that is most useful in examining a trust company. He is accustomed to confidential relations, and his position in his profession and in the business community is directly contingent upon the faithful discharge of his obligations.

Some banks and trust companies in this country have adopted the practice of printing a public accountant's certificate in their published reports. This is in keeping with a custom that is growing among other classes of corporations in this country, and that is almost universal in Great Britain. Present tendencies point to its becoming generally expected by the business public, just as banking houses are now laying stress upon an accountant's certificate as to a customer's financial statement when presented as a basis for credit.

In many respects the best examination of a trust company is one made semi-annually or quarterly by the board of directors and a certified public accountant, in which the directors and the accountant work together in counting the cash and securities, thus enabling the directors to see the actual assets, while the accountant and his assist-

ants complete the examination by verifying the book entries and accounts. In addition to these semi-annual examinations, a certified public accountant should be authorized to make more frequent examinations of the accounts of one or more departments at a time, without previous notice to any one in the company.

To discharge their duty to the stockholders whom they represent, to the public whose confidence they solicit, and to the officers and employees of whom they require the utmost fidelity, the directors of every trust company must see that a simple but adequate system of accounts is used and insist upon frequent and thorough examinations of the assets and records.

CHAPTER XIII

MISCELLANEOUS SUBJECTS

CORRESPONDENCE OR MAIL ROOM

In a small company the care of correspondence presents no difficult problems. With the increase of business, complications arise which may result in confusion, error, and needless expense unless systematic methods are introduced.

The oversight of the mail is usually in the hands of the secretary, the details in a large office being cared for by a special force of assistants.

To secure the greatest economy of time and space, a uniform system should obtain throughout the entire office. While each department should have its mail so handled as to meet its particular needs, the methods used should be in harmony with the general system of dealing with the correspondence of the entire establishment. Even in a small company it is well to inaugurate a simple system capable of expansion.

When the size of the company is large enough to warrant it, there should be a special mail room, in which all mail is received and sorted, to which all out-going letters are sent to be copied, sealed, and mailed, and where all correspondence is filed. Letters should not be allowed to accumulate either on the desks or in the mail room. The finished matter of the previous day should be regularly collected and promptly filed. When letters are borrowed from the files, receipts should be taken and deposited in place of the missing letters.

Whether the typewriting should be done in the mail room is a question to be determined by the exigencies of each case. With a limited force of stenographers more can be accomplished by having them together, under the direction of a chief operator who is held responsible for all the work. The other method, usually more satisfactory to the officers of a company, is to have stenographers attached to each department, who send their letters, after being signed, to the

mail room. Such an arrangement saves the officers' time, as the stenographers are at hand when needed, and can be made use of in many ways besides taking dictation. The stenographer often occupies the post of private secretary, and is a very important part of the office force.

To save time, the phonograph can be used for the purpose of dictation. The officer dictates to the machine as he finds opportunity, and the operator sets the phonograph at a convenient speed and typewrites directly from it without taking down the dictation in shorthand.

Other labor-saving devices should be introduced whenever they will facilitate the work. Duplicating systems are essential where many copies of letters or accounts must be made; and where the same lists of names are repeatedly used for mailing purposes, mechanical addressing systems should be used.

An ample force of stenographers should always be employed in order to save the time of officers and clerks, which can be used to better advantage in other ways. With the introduction of loose-leaf books and book typewriters, it is becoming more general to have book entries and card index records made on the typewriter, because there is less liability to error than in written entries, and the results are neater and often more legible.

All incoming mail matter is delivered to the secretary or his assistants. It is first sorted, and all specially addressed matter is sent to the proper departments without being opened. The general mail is then opened, examined, and distributed. Where this work is performed by assistants, more or less complete records may be kept of both incoming and outgoing mail. Enclosures are often noted and recorded, in order to prevent loss and any question of divided responsibility. A special record of incoming as well as outgoing registered mail is kept, and the receipts covering these items are filed. In some very large organizations each letter is followed up, and if an acknowledgment or answer is not returned for mailing within a reasonable time, the cause of delay is investigated. In most trust companies it is not necessary to have such elaborate systems as are needed in large mercantile establishments receiving and mailing hundreds or even thousands of letters each day.

Outgoing letters originate in the various departments, and after

being signed are sent to the mail room where they are copied. This is now usually done on a roller copier instead of in a letter book. The roller copier not only is more rapid, but renders less likely any smearing of the letter in copying, and makes it possible to file letters and answers together, obviating the necessity of long hunts through the indexes of various letter books to find a needed letter. Frequently a carbon copy is made for filing purposes and the letter itself is not copied. When this system is used it is wise to have the carbon copy initialed by the officer signing the letter.

Where there is a large outgoing mail, originating in various departments, it may be advisable after copying the letters to place them in alphabetical order in a sorting tray so that all letters to one correspondent may be sent out in a single cover. This simple device will in a large office save a surprising number of postage stamps and envelopes. The fact that one stamp box is used for the entire office, instead of having a separate supply of stamps on each desk, also leads to economy.

After the letters are inserted, the envelopes are put through a sealing machine, run either by hand or by electricity. These machines automatically moisten the flap, and then pass the envelope through rollers under enough pressure to seal them securely.

For the business of a trust company the vertical filing system is the most satisfactory, being the one most easily adapted to the demands of the various departments and their individual requirements. The letters and copies of answers are filed in manila folders, $10'' \times 12''$, which are placed on edge, open side up, in file-drawers. Each folder bears a number, and guide cards separate them by twenties so that any folder is immediately located in the file-drawers, which also bear labels indicating the number of the folders they contain.

Each new correspondent is given an accession number, and a card bearing that number is made out with his name and placed in the finding-index in alphabetical order, his correspondence being placed in the folder bearing the same number. A card once placed in the finding-index is never destroyed. Cross index cards should be used whenever necessary. By the use of the so-called "Automatic Index" the finding-index can be eliminated.

The advantages of the vertical system are too numerous to mention, but some of the more important features will commend themselves to the busy man. He finds in his mail a letter from some individual or company, whose previous correspondence he wishes to consult. The file clerk brings him the folio entire. As he opens it on his own desk the latest letter from or to his correspondent is on the top, and as he turns the letters, just as one would turn the pages of a book, he finds in chronological order all communications in reference to the correspondent in question. As examples of what may be done with this system, a few very usual cases may be cited.

John Doe is a depositor. He sends deposits by mail. On the receipt of his first letter he is given card and folder No. 377 (there being already three hundred and seventy-six cards and folders in use for other correspondents), and his letter and the copy of its acknowledgment are filed in folder No. 377, his card taking the proper place in the finding-index. The X. and Y. R. R. Co. inquire as to Mr. Doe's standing. The trust company replies, and since their interest is in John Doe in this matter, the X. and Y. R. R. Co.'s letter and answer are filed in folder No. 377, the signature of the R. R. Co.'s letter being ignored. He may also be a member of the firm of Doe and Roe, Bankers, who have a loan account with the trust company. They have previously been assigned, let us say, folder No. 206. In this folder may be found their correspondence, and a folder following it and called No. 206 A contains their signed slips showing changes in collateral. Should a question arise at any time in regard to their loans, the contents of this folder will materially assist in establishing the facts. Doe and Roe send the trust company a deposit with the request that it be credited to John Doe. They thereby become, as far as correspondence is concerned, merely middlemen, and as in the case of the X. and Y. R. R. Co., this request and the copy of the acknowledgment of deposit are filed under John Doe's number — 377.

Another case might differ a little, as follows. The trust company is buying, through several brokers, various securities. The interest of the trust company is then, of course, centred in the security and not in any one of the firms who may chance to have taken its order. It may then be to advantage to have a set of folders bearing a number with an added letter. A card in the finding-index

bears the name "securities" and the number 350. In the filing-drawer may be found folders No. 350 A, 350 B, 350 C, and so on; or if 26 divisions are unnecessary, the alphabet may be divided to suit the case, as few as three divisions being sometimes sufficient, as 350 A–F, 350 G–N, 350 O–Z. Thus, if Doe and Roe buy for the trust company certain securities of the Y. and Z. R. R. Co., they are evidently acting, again from a correspondence standpoint, as middlemen; and the Y. and Z. R. R. Co., being the security in which the trust company is interested, any correspondence in regard to it from Doe and Roe or others may be found under "Securities," folder 350, and in its proper alphabetical subdivision.

Letters regarding syndicates in which the company participates will be most advantageously handled in like manner, and, in fact, filing by subject may be carried as far as is deemed expedient. Care should be taken, however, to file in this way only when the subject is more important than the name of the correspondent, and when all papers in regard to a given subject or of a similar character are more frequently wanted than the letters of each correspondent.

Under one number sets of folders with alphabetical subdivisions may be given to such general heads as "Applications for Positions with the Company," "Applications for Mortgages, Declined," "Miscellaneous Inquiries," and so on. Under these and other heads a great deal of the flotsam and jetsam of correspondence, which more than likely will not again be consulted after the first handling, may be safely filed. The advantage, for instance, of having all applicants' letters concentrated would be appreciated if an extra clerk were needed at a moment's notice. Instead of looking through the old style alphabetical file for half-forgotten names, appended to letters of wholly forgotten dates, within half a minute the entire correspondence of applicants may be laid before the officer desiring it, and he then may run through it in a few minutes more, and select the desired papers.

These examples serve to illustrate some of the methods which may be used in general correspondence. Different companies, however, are sure to have different needs, and variations of the cases noted above, as well as entirely new problems, will be easy of solution where vertical filing is used, the object in view being always so to file the correspondence that it may be easily located and

consulted without unduly increasing the size of the finding-index or letter files.

Trust letters should be filed separately from general correspondence. In a previous chapter the value of having an accession number for each trust account opened is spoken of. This number obtains wherever mention of the account is made, and it should also be used as a filing number for trust letters. It is easy for those answering trust correspondence to note on every letter received or sent the number of the trust or trusts to which it refers. This makes immediate filing of the letters possible in the filing room; and to consult them again it is only necessary to use the index of trust accounts as a finding-index. In case a letter bears two or more trust numbers, it is filed under the lowest number, and a "dummy" sheet, printed for the purpose, is filed in the folder bearing the higher number and refers back to the lower number. A cross index of correspondents, made up largely of beneficiaries, may be used to advantage. A duplicate of this index should be in the hands of the remittance clerk. Copies of accounts and statements are placed in separate folders following those containing the correspondence in regard to the trust. The folders containing the accounts may be made of a different color. As in other varieties of correspondence, it will be found expedient to divide some folders into alphabetical sets with a small or large number of divisions to meet the needs of the case. Letters in regard to trusts not yet formed, but about which there is preliminary correspondence, should be filed in an alphabetical set under No. 0, signifying that no number has yet been assigned. As the new trusts receive accession numbers, these letters are weeded out and properly filed.

The real estate departments of some trust companies care for large numbers of properties, and improved properties must be kept tenanted and in repair. One or more drawers of the vertical file may be given over to all correspondence in this connection, and to make these letters easy of access, as well as to economize space and time, they should be filed under the name of the property. In the real estate finding-index the main divisions are by states, with subdivisions of county, town, street, and finally street numbers in numerical sequence. To find the entire correspondence relating to a given property, including letters from tenants, inquiries from prospective tenants, letters from carpenters and other mechanics, notices

from city authorities, inquiries from the owners for whom the company is acting, and the copies of replies to all these, one folder is consulted. To locate this folder one has only to find the property on its card, which bears the folder number, as in the general correspondence. In half a minute again the officer desiring it has laid before him all communications referring to the property in question. Tenants change, mechanics change, several part owners write, and so on, but the property always retains the folder number first given it.

The mortgage correspondence may also be handled in the same way, since the only sure way of locating mortgage letters is by property. Both interest payer and mortgage owner may change as in the case of a mortgage sold by one trust account and bought by another, or the sale of a property subject to a mortgage; but the property number remains the same, and makes possible immediate consultation of all the correspondence.

Transferring is a very simple matter under the vertical system. As folders get unwieldy or the current files are filled, the correspondence is placed in transfer files. These files are kept in the correspondence room, and should be readily accessible. A label on the outside of each unit indicates the numbers of the folders which it contains, and when a single number occupies more than one unit, the dates included in each are shown. Correspondence more than a year old can safely be transferred. At least a year's letters should be left in the current files, except when the correspondence is too voluminous or when the account is closed. The folder in the current file is stamped to show to what date the correspondence has been transferred. As a transfer unit becomes full, another is placed beside it, to contain the additional matter. For the general correspondence of a trust company this is more satisfactory than transferring all the letters of a given period, as it preserves the continuity of all correspondence, a given number appearing in its proper place in both current and transfer files, and making it easy to locate letters of any date.

The above gives a working plan for handling the correspondence of the average company. The success of any filing system depends in large measure upon the intelligence of those who are actually doing the work. When one remembers that quickness in filing a letter does not necessarily insure ease in finding it, the care

and time taken in establishing and carrying out a suitable system seem amply justified.

CLERICAL FORCE

There is no position in a trust company so humble as not to demand serious consideration of the character of the man who is to fill it. Where money values are so constantly dealt with, either directly or indirectly, honesty is always the first qualification. Education and previous occupations come next in importance. The general impression that no previous training is needed, that the bank or trust company is an asylum for poor relatives or luckless failures, is not shared by officers who have conducted an involuntary kindergarten and attempted to pound into shape the raw material thrust upon them by importunate directors, stockholders, or clients. There is no room for "influence" in trust company appointments.

Home surroundings are often the best index to personal character, and a good name is not to be despised as a restraint from temptation and a spur to healthy ambition. The manners and general appearance of the office force have their bearing on the business. Handwriting — an almost neglected art outside the public schools — may settle the question of a clerk's promotion. On the whole, the man with college training, particularly if he is dependent on his own exertions, is the best type for trust company positions. Technical knowledge is easily supplied if earlier training has given the broad outlook and mental grasp which fit a man to rise to posts of responsibility.

Banking has been one of the last fields to be invaded by women. The stenographer was the entering wedge, and many other positions have since been captured. It is after all not so much a question of sex as of qualifications. There is no more room for the untrained woman in a trust company than there is for the untrained man.

Employees are now almost universally required to furnish bonds for the faithful performance of their duties. These may be either personal bonds given by the employee and some relative or other individual who goes surety for him, or the obligation of a surety company. The surety company's bond is rapidly superseding the personal bond. The employer often pays the premiums. The surety companies examine carefully the history and character of the em-

ployee, and keep more or less closely in touch with their "risks," as occasion may require. The better companies pay losses promptly and use every effort to secure the conviction of wrong-doers, and this in itself acts as a powerful deterrent. They also take the responsibility of investigating the conduct of employees, and their cancellation of a risk or refusal to renew a bond is sufficient reason for dismissal.

To get the best work from employees, strict and impartial discipline must be combined with liberal treatment and the prospect of deserved promotion. Salaries are based on the position and on the length of service. The trust company should protect itself not only by surrounding its employees with every safeguard, but by paying salaries on which they can live decently. Every employee should be prohibited from stock or other speculation, and an infraction of this rule should be adequate cause for dismissal. Promotions should be governed by civil service principles in a trust company as much as in a government department. The system should, however, be elastic, and care should be taken not to promote unless the employee is well qualified for the higher post.

"Anybody can do twelve months' work in eleven months; nobody can do twelve months' work in twelve months." Mental work to be well done requires a definite amount of relaxation far greater than is required in the performance of mere physical labor. In the keen competition and busy life of this country it is seldom realized how necessary rest is for those who do exacting mental work, and particularly for those who hold positions of responsibility. In trust companies regular attendance should be required when on duty, and liberal vacations should be given, both for the sake of the employee and as a protection to the company. The clerk who is never willing to be absent needs watching. A well-known firm requires each of its office employees to take a day off duty each month, when all personal and private affairs must be attended to. One of the advantages of this plan is that, in substituting, the employees have frequent opportunity to examine and become familiar with each other's work. Vacations should be graded first as to the position held, and secondly as to length of service. It goes without saying that the officer who is responsible for the conduct of the business needs more time off duty than the clerk who leaves all thought of work behind him

when he closes his ledger. The best officers are not those who stick too closely to their desks.

Civil pensions which in Europe are so common are gradually being adopted by many business houses in this country. To keep up an effective organization and progressive methods, a trust company, like an army, must provide some plan of compulsory retirement. The system should be based on the position held at the time of retirement, age, and length of service. The rules governing officers and clerks should vary according to the requirements of each class. Compulsory retirement sometimes causes the loss of valuable employees, but these are few in proportion to the total number retired, and there is usually an actual saving in salaries.

MESSENGERS, WATCHMEN, AND CLEANERS

The entrance of every trust company should be guarded by an adequate force of efficient watchmen, who can assist and direct customers, and exclude pedlers, book agents, and other undesirable visitors.

A Western trust company keeps tally of all visitors by requiring the watchman at the doorway to hold in his hand an automatic counting device, which he presses each time any one enters the building. The total is reported to the president on the summary of each day's business. The record itself is not so valuable as the fact that it lessens the possibility of any one being able to slip in unnoticed.

In addition to the force of watchmen stationed at the entrance of the building and in the various departments, there should be a sufficient number of messengers. These may be either boys specially employed, or watchmen detailed for the purpose. All outside errands should be passed through the chief messenger, who can often arrange that several errands shall be done on the same trip, saving both time and car fare.

The night watchmen, who are left in entire charge of the building and its contents, should be intelligent and active, as well as thoroughly trustworthy. It is a mistake to suppose that this is a position to be filled by the superannuated. The watchmen inspect the building at frequent and regular intervals. Except in case of emergency, they should never admit any one to the building unless authorized

to do so by the proper officer. Outside electric connections are now used as a valuable additional protection.

The cleaners are sometimes a separate force; often the watchmen and messengers do this work. Whatever the arrangement, the cleaning should be regularly done under strict supervision. The best results are obtained by having a housekeeper or superintendent of the building, who is responsible for its condition, and who oversees the work of scrubbing and cleaning. The standard of cleanliness in offices is unfortunately not high, and in many that abomination, the feather duster, still holds sway. A lesson in the art of conquering dirt should be learned from the hospitals.

OFFICE BUILDING

Trust companies are permitted by law to hold sufficient real estate to provide for the conduct of their business. The limit of such holdings is usually fixed by charter or statutory provision.

Some trust companies occupy rented quarters, but location is so important a factor in securing and holding business that for the sake of permanent tenure they usually own their office buildings. Where the price of land permits, the company generally prefers to occupy an entire building.

The construction should be of the best, and the first cost will be more than offset by the later saving in repairs. The building should be fireproof throughout, the walls heavy enough to protect the interior in case of fire in adjoining buildings. If surrounded by high buildings, the roof should also be strong enough to bear the weight of walls which may fall upon it. Steel cases and shelving are superior to wood.

The main banking room occupies the ground floor. There is usually a lobby just inside the entrance and a central aisle with the offices on each side. The banking department is generally near the entrance, while the trust and other departments are in the rear or on different floors. The higher officers should be protected from the importunities of the pedler and book agent, and yet they should be within reach of all who wish to consult them.

The plans for a new building should provide a systematic arrangement of departments, and allow space for future growth. In each

department there should be a comfortable room for the officer in charge, and ample provision for the convenience of customers. In the trust department, especially, where the visits of clients are necessarily often long, there should be pleasant waiting rooms, and rooms where securities may be received and counted, or conferences held, with due regard for privacy. Many companies are now providing separate quarters for women customers, furnished with every luxury, and with a maid in attendance. Adequate lavatories for the use of both the office force and the public are essential. Where both men and women are employed, separate dressing and wash rooms must be provided. Each employee should have a locker for his personal use. Clerks should not be permitted to leave hats or clothing where they can be seen by the customers. Storerooms for old books, records, and correspondence should be so arranged that all documents can be readily found and consulted when necessary. If meals are served to the employees, the dining rooms, pantry, and kitchen should be at the top of the building if possible, — never in the basement, — and so ventilated that the smell of cooking cannot penetrate elsewhere. The officer in charge of the building should make a careful study of its ventilation. Fresh air is essential to the health and efficiency of the employees, and the comfort of customers. The basement should extend under the entire building, and where space is precious, it can be used for safe deposit vaults as well as for lighting and heating plants, lavatories, and stock rooms.

The vaults are built on foundations entirely separate from the rest of the building. The heavy main doors are equipped with time and combination locks. Inside these are grill doors for use during office hours, and locked steel closets. Electric attachments are often used, which record at a point outside the building the time when the vault doors are opened and closed.

After office hours all persons entering or leaving the building should do so through a single door, and the watchman on duty should keep a tally sheet of their names. An automatic attachment rings a bell and records the time while the door is open. The two records should be compared each morning. A time detector should be punched at regular intervals by the watchmen who make frequent rounds of the building. The right to enter the building when closed should be limited to as small a number as possible.

On the books of a new organization, its building and fixtures appear at cost figures. These should gradually be reduced to allow for possible depreciation in the value of the land and for the wear and tear of building and fixtures. In almost every mercantile or manufacturing business, a fixed amount is annually written off for the depreciation of the plant, and the same principle should be followed by financial institutions, although many of them let real estate and buildings stand at cost on the books, and are content to take the half-way measure of charging repairs and renewals to expenses. Even if the value of the land increases, it is sound policy to cut down the book value so as to be prepared for the possible removal, extension, or alteration of the office building.

LUNCHEON ROOM

Where the size of the company and the profits of the business warrant the expense, it is advisable to give the employees a luncheon in the building. The only argument against providing meals is their cost, and this may be defrayed by charging for them, and still giving a cheaper and better luncheon than could be obtained elsewhere. The substitution of a comfortable meal for a "quick lunch" of dubious quality has its effect on the health and regular attendance of the office force. It also insures the clerks being in the building if needed, obviates the danger of their frequenting undesirable resorts, and reduces the length of time they are absent from their desks.

Sometimes a caterer brings the meal already prepared to the office. It is more satisfactory for the company to have its own kitchen, storeroom, and pantry, and to employ a housekeeper. The housekeeper should prepare the weekly menus and submit them for approval to a superior officer. There may be somewhat different bills of fare for the messengers and watchmen, the general force of clerks, and the officers. Usually there is a special dining room for the president and directors. In some companies luncheon is served separately to the women employees.

By having two tables at which meals are served alternately each half hour, the office force can be provided for without taking many from their desks at the same time. One capable cook and a helper can provide luncheon for about one hundred persons, and two waiters

can serve the meals to the same number in relays of twelve to eighteen. Where a series of luncheons is served, a hotel gas range should be used. The cost is usually about the same as for coal, and a quick and even fire is secured with entire freedom from ashes. There should be large serving and steam tables. It is also well to provide ample refrigerators and storerooms so that meats and provisions can be bought in quantity.

If a housekeeper is employed, she should be responsible for the cleanliness of the entire building, and the scrubbers and cleaners should be under her direction. A competent housekeeper who is a trained dietician with a good knowledge of household economics can make the position an important one. A housekeeping department makes it possible to provide luncheons for stockholders' meetings and other special occasions at comparatively slight cost.

PURCHASE AND CARE OF SUPPLIES

To avoid duplication and waste, all purchases should be made under the direction of a single officer especially qualified for this duty. Each department makes requisition on the purchasing officer for needed supplies. The buyer should, if possible, not be the disbursing officer. An absolute rule should be made against the purchasing officer's accepting commissions and gifts, no matter how trifling, or rebates of any sort. There cannot be fair competition unless the bidder realizes that price and quality are the only factors to be considered.

Carelessness on the part of buyers has probably fostered the prevailing opinion that the large profits of financial institutions make them fair game for the merchant as well as the tax gatherer. As a matter of fact, a trust company should be able to buy on more favorable terms than the ordinary customer, because of the certainty of prompt payment and the likelihood of continuous custom. Good policy requires that the purchases of a trust company should be in keeping with its reputation for solidity and success; its stationery should be attractive for the same reasons that its building should be kept in good repair. The most expensive supplies are not always the most serviceable, however, and the expert purchasing officer can effect large savings by knowing where and how to buy to the best advantage. Thus, certain firms, whose prices are low for one kind

of work, may invariably be high for others. The stationer who outbids his competitors on general printing may not be able to compete on the item of envelopes with the envelope manufacturers who both make and print the goods.

Wherever possible, purchases should be made in quantity and after securing competitive bids. Careful specifications should always be prepared, both to protect the purchaser and to make it certain that the bidders are all estimating on the same thing. Bids should only be asked from reputable and responsible firms. When long experience has proved that a particular firm always presents the lowest bid in its line, and that the prices vary but slightly from year to year, it may not be necessary to get more than their single estimate unless there should be a sudden advance in price.

All stationery and books in regular use should be ordered annually. When expensive forms are used in small quantities, considerable saving can be effected by ordering for longer periods. If the order for the entire year's printing is given in the late spring or early summer, when the printers' business is dull, and full time is allowed for delivery, a concession in price can usually be obtained. Special and rush orders are always costly.

Before the annual orders for stationery and supplies are given, the stock clerk should show on an inventory sheet the stock on hand, the amounts used during the previous year, and the date, quantity, and prices of the last order. Using these figures as a basis, estimates are asked for the amounts needed for the coming year.

In a trust company the cost of supplies is charged off as an accrued expense as soon as the bill is approved as correct. Hence the inventory of supplies on hand does not, as in a mercantile or manufacturing business, form an essential part of the balance sheet. Careful records should nevertheless be kept in order to prevent waste.

In a recently organized trust company in a small country town, the bank examiner found on his first visit an item of "personal property" in the general balance sheet. Upon inquiry this item was found to represent the stock of pens, pencils, and stationery on hand, and the examiner's suggestion that the item be charged off as an expense, brought to light the fact that the earnings were not sufficient to cover their cost, and that charging them off would result in an impairment of the company's capital!

THE MODERN TRUST COMPANY

Inventory and Schedule of Annual Order of Supplies

Form No. or Description	Balance on hand	Amount used during past Year	LAST ORDER			ESTIMATES ASKED FOR			ORDER GIVEN		Goods Delivered	REMARKS
			Date	Quantity	Price	Date	Quantity	Lowest Price	Date	Firm		

All goods should be delivered to the stockkeeper, who examines them and notes their receipt in a record of supplies received. He should compare the goods delivered with the quantities ordered, and initial the bills if found correct. He is responsible for the care of all supplies and should be given ample space to arrange them systematically and neatly. The supplies belonging to each department should be kept together and when possible arranged according to the number of the form. They may be kept on open shelves of varying size, in cheap pasteboard boxes, the smaller boxes one-half, one-quarter, and one-eighth the size of the larger ones, so that the different sizes can be stacked together without wasting space. In ordering large quantities of stationery, envelopes, etc., it is well to specify that the goods shall be delivered either in boxes or else wrapped in sealed packages and clearly marked with the form number and amount.

No stock should be distributed to the various departments except upon requisition, properly signed. A stock record should be kept, and for this purpose cards are more convenient than a book. The cards, ruled to show the name of the article, the fixed maximum and minimum quantities, the receipts, deliveries and balance on hand, can be secured from any well equipped stationer. Postings are made at regular intervals from the record of stock received and the requisitions. By keeping track of the balance on hand, it is easy to know just when to order fresh supplies. As the stock record shows the quantities used from year to year, it is also a simple matter to estimate the quantity needed for any given period. Without such a record it would be all but impossible to order supplies systematically. The stock record can, if desired, be combined with the index of forms described below. The stockkeeper should take stock at stated periods, in order to verify his records.

Contracts should be made covering the cost of small and recurring items, such as printing depositors' names on standard checks, and numbering and binding checks. Standard qualities of paper and a uniform style of printing should be adhered to. All forms should be numbered and bear the amount and date of the order. Thus, "T. 21. 5000 7.12" would designate trust department form, No. 21, for which the order was given in July, 1912, for 5000 copies.

Orders should invariably be given on a printed order form, and a carbon copy or stub should be retained. Copies of the forms used in each department should be kept in a sample book, arranged according to form numbers. This should be supplemented by a card index of forms arranged in the same way and giving the date, quantity, and price paid. The quantities purchased during a period of years and their cost are thus recorded, and fluctuations in price are easily traced. Following the cards representing numbered forms there should be an alphabetical index of other equipment in regular use.

ADVERTISING

The well-pleased client is undoubtedly the best advertisement; but in these days of fierce competition it does not do to depend alone on the good-will of friends to spread a knowledge of one's business. The better the commodity or service one has to offer, the more important to have it brought to the notice of the people who need it.

Advertising has become an art, and the form of the advertisement must be carefully adapted to the nature of the business, and the temper of the public appealed to. The merchant may be justified in crying his wares in a fashion entirely inappropriate for the trust company, which misses the whole object of drawing attention to itself unless it can inspire confidence at the same time. The old and conservative community, especially, must not have its ideas of decorum too rudely shaken.

Most trust companies advertise regularly in daily newspapers, and occasionally in magazines. They also distribute statements of condition, leaflets, pamphlets, and even larger books, giving a history of the company or explaining its purposes. There is, besides, a mass of more or less delusive advertising, delusive, that is, from the point of view of the advertiser. Blotters, calendars, rulers, and the thousand and one gift books and novelties which trust companies are continually urged to use as advertising matter may occasionally bring in business, but the return is seldom in proportion to the outlay.

Mr. John E. Powers, the author of much successful advertising, says: "The limit to what can be done in newspapers is one little item a day, one simplest possible thought. Divide the whole knowledge into its smallest parts, and present one part a day. The atten-

tion of people to such things is no more than enough, if indeed it be enough, for one little thought a day: and the smaller the thought, the more likely it is to grow in the reader's mind."

Money given at the instigation of powerful friends to a charity, a city bureau, or a local military organization should be charged to profit and loss rather than to advertising. Especially to be avoided are so-called directories and gift books published simply to secure advertisements, and the alluring volumes in which a history of the company or biographical sketches of its officers are to be inserted without charge. The large supply of "marked copies" which has to be bought later, or the bill for etching a second-rate portrait, sets a price on this concession to corporate or individual vanity.

The banker is proverbially "easy" in these matters. He has not been forced to give the same close attention to advertising as the merchant, and he seldom has an expert advertising manager. The need of system is, however, gradually being recognized. A trust company's advertising should all be in charge of one person, and the sum to be expended for the year, as well as the general plan of campaign, should be settled and contracts made in advance. If there is no one in the office force fitted to map out the work successfully, an advertising agency of high grade may be employed to take charge of all the advertising, or to act in an advisory capacity. In the selection of an expert great care should be taken, for the man who can successfully advertise a soap or a piano, may not understand the difference between a grocery store and a trust company. On the other hand, a plan should not be condemned simply on the ground of novelty, and the agent once chosen should so far as possible be given an opportunity to carry out his ideas.

APPENDIX

CODE OF THE DISTRICT OF COLUMBIA

SUBCHAPTER XI

Trust, Loan, Mortgage and Certain Other Corporations

SEC. 715. **For What Purposes to be Formed.** — Corporations may be formed within the District of Columbia for the purposes hereinafter mentioned in the following manner: At any time hereafter any number of natural persons, citizens of the United States, not less than twenty-five, may associate themselves together to form a company for the purpose of carrying on in the District of Columbia any one of the three classes of business herein specified, to wit: —

FIRST. A safe deposit, trust, loan, and mortgage business.

SECOND. A title insurance, loan, and mortgage business.

THIRD. A security, guaranty, indemnity, loan, and mortgage business: PROVIDED, That the capital stock of any of said companies shall not be less than one million of dollars: That any of said companies may also do a storage business when their capital stock amounts to the sum of not less than one million two hundred thousand dollars.

SEC. 716. **Organization Certificate.** — Such persons shall, under their hands and seals, execute, before some officer in said district competent to take the acknowledgment of deeds, an organization certificate, which shall specifically state —

FIRST. The name of the corporation.

SECOND. The purposes for which it is formed.

THIRD. The term for which it is to exist, which shall not exceed the term of fifty years, and be subject to alteration, amendment or repeal by Congress at any time.

FOURTH. The number of its directors, and the names and residences of the officers who for the first year are to manage the affairs of the company.

FIFTH. The amount of the capital stock and its subdivision into shares.

SEC. 717. **Powers of Commissioners of the District.** — That this certificate shall be presented to the Commissioners of the District, who shall have power and discretion to grant or refuse to said persons a charter of incorporation upon the terms set forth in the said certificate and the provisions of this subchapter.

SEC. 718. **Notice of Application to Commissioners.** — Previous to the presentation of the said certificate to the said commissioners, notice of the intention to apply for such charter shall be inserted in two newspapers of general circulation, printed in the District of Columbia, at least four times a week for three weeks, setting forth briefly the name of the proposed company, its character and object, the names of the proposed corporators, and the intention to make application for a charter on a specified day, and the proof of such publication shall be presented with said certificate when presentation thereof is made to said Commissioners.

SEC. 719. **Recording Charter, etc.** — If the charter be granted as aforesaid, it, together with the certificate of the Commissioners granting the same indorsed thereon, shall be filed for record in the office of the recorder of deeds for the District of Columbia, and shall be recorded by him. On the filing of the said certificate with the said recorder of deeds as herein provided, approved as aforesaid by the said Commissioners, the persons named therein and their successors shall thereupon and thereby be and become a body corporate and politic, and as such shall be vested with all the powers and charged with all the liabilities conferred upon and imposed by this subchapter upon companies organized under the provisions hereof: PROVIDED, HOWEVER, That no corporation created and organized under the provisions hereof, or availing itself of the provisions hereof as contained in section seven hundred and twenty-five, shall be authorized to transact the business of a trust company, or any business of a fiduciary character, until it shall have filed with the Comptroller of the Currency a copy of its certificate of organization and charter, and shall have obtained from him and filed the same for record with the said recorder of deeds, a certificate that the said capital stock of said company has been paid in and the deposit of securities made with said Comptroller in the manner and to the extent required by this subchapter.

SEC. 720. **Reports to Comptroller.** — All companies organized hereunder, or which shall, under the provisions hereof, become entitled to transact the business of a trust company, shall report to the Comptroller of the Currency in the manner prescribed by sections fifty-two hundred and eleven, fifty-two hundred and twelve, and fifty-two hundred and thirteen of the Revised Statutes of the United States,

in the case of national banks, and all acts amendatory thereof or supplementary thereto, and with similar provisions for compensating examiners, and shall be subject to like penalties for failure to do so. The Comptroller shall have and exercise the same visitorial power over the affairs of the said corporation as is conferred upon him by section fifty-two hundred and forty of the Revised Statutes of the United States in the case of national banks. He shall also have power, when in his opinion it is necessary, to take possession of any such company for the reasons and in the manner and to the same extent as are provided in the laws of the United States with respect to national banks.

Sec. 721. **Special Powers.** — All companies organized under this act are hereby declared to be corporations possessed of the powers and functions of corporations generally, and shall have power —

First. To make contracts.

Second. To sue and be sued, implead and be impleaded, in any court as fully as natural persons.

Third. To make and use a common seal and alter the same at pleasure.

Fourth. To loan money.

Fifth. When organized under subdivision one of section seven hundred and fifteen of this subchapter to accept and execute trusts of any and every description which may be committed or transferred to them, and to accept the office and perform the duties of a receiver, assignee, executor, administrator, collector of estate or property of any decedent, guardian of the estate of minors, with the consent of the guardian of the person of such minor, and committee of the estates of lunatics and idiots whenever any trusteeship or any such office or appointment is committed or transferred to them, with their consent, by any person, body politic or corporate, or by any court in the District of Columbia; and all such companies organized under the first subdivision of section seven hundred and fifteen of this subchapter are further authorized to accept deposits of money for the purposes designated herein, upon such terms as may be agreed upon from time to time with depositors, and to act as agent for the purpose of issuing or countersigning the bonds or obligations of any corporation, association, municipality, or State, or other public authority, and to receive and manage any sinking fund on any such terms as may be agreed upon, and shall have power to issue its debenture bonds upon deeds of trust or mortgages of real estate to a sum not exceeding the face value of said deeds of trust or mortgages, and which shall not exceed fifty per centum of the fair cash value of the real estate covered by said deeds or mortgages, to be ascertained by the Comptroller of the Currency; but no debenture bonds shall be issued until the securities on which the same

are based have been placed in the actual possession of the trustee named in the debenture bonds, who shall hold said securities until all of said bonds are paid; and when organized under the second subdivision of section seven hundred and fifteen of this subchapter said company is authorized to insure titles to real estate and to transact generally the business mentioned in said subdivision; and when organized under the third subdivision of section seven hundred and fifteen of this subchapter said company is hereby authorized, in addition to the loan and mortgage business therein mentioned to secure, guaranty, and insure individuals, bodies politic, associations, and corporations against loss by or through trustees, agents, servants, or employees and to guaranty the faithful performance of contracts and of obligations of whatever kind entered into by or on the part of any person or persons, association, corporation or corporations, and against loss of every kind: PROVIDED, That any corporation formed under the provisions of this subchapter when acting as trustee shall be liable to account for the amounts actually earned by the moneys held by it in trust in addition to the principal so held; but such corporation may be allowed a reasonable compensation for services performed in the care of the trust estate.

SEC. 722. **May be appointed Trustee, Executor, etc.** — In all cases in which application shall be made to any court in the District of Columbia, or wherever it becomes necessary or proper for said court to appoint a trustee, receiver, administrator, collector, guardian of the estate of a minor, or committee of the estate of a lunatic, it shall and may be lawful for said court (but without prejudice to any preference in the order of any such appointments required by existing law) to appoint any such company organized under the first subdivision of section seven hundred and fifteen of this subchapter with its assent, such trustee, receiver, administrator, committee, or guardian, with the consent of the guardian of the person of such minor: PROVIDED, HOWEVER, That no court or judge who is an owner of or in any manner financially interested in the stock or business of such corporation shall commit by order or decree to any such corporation any trust or fiduciary duty.

SEC. 723. **Oath.** — Whenever any corporation operating under this code shall be appointed such trustee, executor, administrator, collector, receiver, assignee, guardian, or committee as aforesaid, the president, vice-president, secretary, or treasurer of said company shall take the oath or affirmation now required by law to be made by any trustee, executor, administrator, collector, receiver, assignee, guardian, or committee.

SEC. 724. **Stock to be Security.** — When any court shall appoint the said company a trustee, receiver, administrator, collector, or such

guardian or committee, or shall order the deposit of money or other valuables with said company, or where any individual or corporation shall appoint any of said companies a trustee, executor, assignee, or such guardian, the capital stock of said company subscribed for or taken, and all property owned by said company, together with the liability of the stockholders and officers as herein provided, shall be taken and considered as the security required by law for the faithful performance of its duties, and shall be absolutely liable in case of any default whatever.

SEC. 725. **Existing Companies.** — Any safe deposit company, trust company, surety or guaranty company, or title-insurance company now fncorporated and operating under the laws of the United States or of the District of Columbia, or of any of the States, and now doing business in said District, may avail itself of the provisions of this subchapter on filing in the office of the recorder of deeds of the District of Columbia, or with the Comptroller of the Currency, a certificate of its intention to do so, which certificate shall specify which one of the three classes of business set out in section seven hundred and fifteen it will carry on, and shall be verified by the oath of its president to the effect that it has in every respect complied with the requirements of existing law, especially with the provisions of this subchapter; that its capital stock is paid in as provided in section seven hundred and thirty-five of this subchapter and is not impaired, and thereafter such company may exercise all powers and perform all duties authorized by any one of the subdivisions of section seven hundred and fifteen of this subchapter in addition to the powers now lawfully exercised by such company.

SEC. 726. **Real Estate.** — Any company operating under this subchapter may lease, purchase, hold and convey real estate, not exceeding in value five hundred thousand dollars, and such in addition as it may acquire in satisfaction of debts due the corporation, under sales, decrees, judgments, and mortgages. But no such association shall hold the possession of any real estate under foreclosure of mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

SEC. 727. **Duration of Charter.** — The charters for incorporations named in this subchapter may be made perpetual, or may be limited in time by their provisions, subject to the approval of Congress.

SEC. 728. **Capital Stock.** — The capital stock of every such company shall be at least one million dollars, and at least fifty per centum thereof must have been paid in, in cash or by the transfer of assets as hereinafter provided in section seven hundred and thirty-five of this subchapter, before any such company shall be entitled to transact business as a corpora-

tion, except with its own members, and before any company organized hereunder shall be entitled to transact the business of a trust company, or to become and act as an administrator, executor, guardian of the estate of a minor, or undertake any other kindred fiduciary duty, it shall deposit, either in money or in bonds, mortgages, deeds of trust, or other securities, equal in actual value to one-fourth of the capital stock paid in, with the Comptroller of the Currency, to be kept by him upon the trust and for the purposes hereinafter provided; and the said Comptroller may from time to time require an additional deposit from any such company, to be held upon and for the same trust and purposes, not exceeding, however, in value one-half the paid-in capital stock; and the said Comptroller shall not issue to any corporation the certificate heretofore provided for until said deposit with him of securities required by this section. Within one year after the organization of any corporation under the provisions of this subchapter, or after any corporation heretofore existing shall have availed itself of the powers and rights given by this subchapter in the manner herein provided for, its entire capital stock shall have been paid in.

SEC. 729. **Shares.** — The capital stock of every such company shall be divided into shares of one hundred dollars each. It shall be lawful for such company to call for and demand from stockholders, respectively, all sums of money by them subscribed, at such time and in such proportions as its board of directors shall deem proper, within the time specified in section seven hundred and twenty-eight, and it may enforce payment by all remedies provided by law; and if any stockholder shall refuse or neglect to pay any instalment as required by a resolution of the board of directors, after thirty days' notice of the same, the said board of directors may sell at public auction, to the highest bidder, so many shares of said stock as shall pay said instalment, under such general regulations as may be adopted in the by-laws of said company, and the highest bidder shall be taken to be the person who offers to purchase the least number of shares for the assessment due.

SEC. 730. **Annual Reports to Comptroller.** — Every such company shall annually, within twenty days after the first of January of each year, make a report to the Comptroller of the Currency, which shall be published in a newspaper in the District, which shall state the amount of capital and of the proportion actually paid, the amount of debts, and the gross earnings for the year ending December thirty-first then next previous, together with their expenses, which report shall be signed by the president and a majority of the directors or trustees, and shall be verified by the oath of the president, secretary, and at least three of the directors or trustees; and said company shall pay to the District of Columbia, in lieu of personal

taxes for each next ensuing year, one and a half per centum of its gross earnings for the preceding year, shown by said verified statement, which amount shall be payable to the collector of taxes at the times and in the manner that other taxes are payable.

SEC. 731. **Liability of Trustees.** — If any company fails to comply with the provisions of the preceding section, all the directors or trustees of such company shall be jointly and severally liable for the debts of the company then existing, and for all that shall be contracted before such report shall be made: PROVIDED, That in case of failure of the company in any year to comply with the provisions of section seven hundred and thirty of this subchapter, and any of the directors shall, on or before January fifteenth of such year, file his written request for such compliance with the secretary of the company, the Comptroller of the Currency, and the Recorder of Deeds of the District of Columbia, such director shall be exempt from the liability prescribed in this section.

SEC. 732. **False Swearing.** — Any wilful false swearing in regard to any certificate or report or public notice required by the provisions of this act shall be perjury, and shall be punished as such according to the laws of the District of Columbia. Any misappropriation of any of the money of any corporation or company formed under this act, or of any money, funds, or property intrusted to it, shall be held to be larceny, and shall be punished as such under the laws of said District.

SEC. 733. **Stock, Personal Estate.** — The stock of such company shall be deemed personal estate, and shall be transferable only on the books of such company in such manner as shall be prescribed by the by-laws of the company; but no shares shall be transferable until all previous calls thereon shall have been fully paid, and the said stock shall not be taxable in the hands of individual owners, the tax on the gross earnings of the company hereinbefore provided being in lieu of other personal tax. All certificates of the stock of any company organized under this subchapter shall show upon their face the par value of each share and the amount paid thereon.

SEC. 734. **Liability of Sockholders.** — All stockholders of every company incorporated under this act, or availing itself of its provisions under section seven hundred and twenty-five, shall be severally and individually liable to the creditors of such company to an amount equal to and in addition to the amount of stock held by them, respectively, for all debts and contracts made by such company.

SEC. 735. **Stock to be paid up in Money Only.**—Nothing but money shall be considered as payment of any part of the capital stock, except that in the case of any company now doing business in the District of Columbia

in any of the classes herein provided for, or under any act of Congress or by virtue of the laws of any of the States, and which company has actually received full payment in money of at least fifty per centum of the capital stock required by this act and which company desires to obtain a charter under this act, all the assets or property may be received and considered as money, at a value to be appraised and fixed by the Comptroller of the Currency: PROVIDED, That all such assets and property are also transferred to and are thereafter owned by the company organized under this act.

SEC. 736. **Number of Trustees.** — The stock, property, and concerns of such company shall be managed by not less than nine nor more than thirty directors or trustees, who shall, respectively, be stockholders and at least one-half residents and citizens of the District of Columbia, and shall, except the first year, be annually elected by the stockholders at such time and place and after such published notice as shall be determined by the by-laws of the company, and said directors or trustees shall hold until their successors are elected and qualified.

SEC. 737. **Officers.** — There shall be a president of the company, who shall be a director, also a secretary and a treasurer, all of whom shall be chosen by the directors or trustees: PROVIDED, That only one of the above-named offices shall be held by the same person at the same time. Subordinate officers may be appointed by the directors or trustees, and all such officers may be required to give such security for the faithful performance of the duties of their office as the directors or trustees may require.

SEC. 738. **By-Laws.** — The directors or trustees shall have power to make such by-laws as they deem proper for the management or disposal of the stock and business affairs of such company, not inconsistent with the provisions of this subchapter, and prescribing the duties of officers and servants that may be employed, for the appointment of all officers, and for carrying on all kinds of business within the objects and purposes of such company.

SEC. 739. **Dividends.** — If the directors or trustees of any company shall declare or pay any dividend the payment of which would render it insolvent, or which would create a debt against such company, they shall be jointly and severally liable as guarantors for all of the debts of the company then existing, and for all that shall be thereafter contracted, while they shall, respectively, remain in office.

SEC. 740. If any of the directors or trustees shall object to declaring such dividend or the payment of the same, and shall at any time before the time fixed for the payment thereof file a certificate of their objection in writing with the secretary of the company and with the recorder of deeds

of the District they shall be exempt from liability prescribed in the preceding section.

SEC. 741. **Liabilities exceeding Assets.** — If the liabilities of any company shall at any time exceed the amount of the fair cash value of the assets, the directors or trustees of such company assenting thereto shall be personally and individually liable for such excess to the creditors of the company after the additional liability of the stockholders has been enforced.

SEC. 742. **Executors, etc., holding Stock.** — No person holding stock in such company as executor, administrator, guardian, or trustee shall be personally subject to any liability as stockholder of such company, but the estate and funds in the hands of such executor, administrator, guardian, or trustee, shall be liable in like manner and to the same extent as the testator or intestate or the ward or the person interested in such trust would have been if he had been living and competent to act and hold the stock in his own name.

SEC. 743. **Increase of Capital Stock.** — Any corporation which may be formed under this subchapter may increase its capital stock by complying with the provisions of this subchapter to any amount which may be deemed sufficient and proper for the purposes of the corporation.

SEC. 744. **Copy of Certificate to be Evidence.** — A copy of any certificate of incorporation filed in pursuance of this subchapter, certified by the recorder of deeds to be a true copy and the whole of such certificate, shall be received in all courts and places as presumptive legal evidence of the facts therein stated.

SEC. 745. **No Bond to be required when Company appointed Executor, etc., except, etc.** — No bond or other collateral security, except as hereinafter stated, shall be required from any trust company incorporated under this subchapter for and in respect to any trust, nor when appointed trustee, guardian, receiver, executor, or administrator, with or without the will annexed, collector, committee of the estate of a lunatic or idiot, or other fiduciary appointment; but the capital stock subscribed for or taken, and all property owned by said company and the amount for which said stockholders shall be liable in excess of their stock, shall be taken and considered as the security required by law for the faithful performance of its duties and shall be absolutely liable in case of any default whatever; and in case of the insolvency or dissolution of said company the debts due from the said company as trustee, guardian, receiver, executor, administrator, collector, or committee of the estate of lunatics, idiots, or any other fiduciary appointment shall have a preference.

SEC. 746. **Bond may be Required.** — The supreme court of the District

of Columbia, or any justice thereof, shall have power to make orders respecting such company whenever it shall have been appointed trustee, guardian, receiver, executor, administrator, with or without the will annexed, collector, committee of the estate of a lunatic, idiot, or any other fiduciary, and require the said company to render all accounts which might lawfully be made or required by any court or any justice thereof if such trustee, guardian, receiver, executor, administrator with or without the will annexed, collector, committee of the estate of a lunatic or idiot, or fiduciary were a natural person. And said court or any justice thereof, at any time, on application of any person interested, may appoint some suitable person to examine into the affairs and standing of such companies, who shall make a full report thereof to the court, and said court, or any justice thereof, may at any time, in its discretion, require of said company a bond with sureties or other securities for the faithful performance of its obligations, and such sureties or other security shall be liable to the same extent and in the same manner as if given or pledged by a natural person.

SEC. 747. **Corporations organized under State Laws.** — No corporation or company organized by virtue of the laws of any of the States of this Union and having its principal place of business within the District of Columbia shall carry on in the District of Columbia any of the kinds of business named in this subchapter without strict compliance in all particulars with the provisions of this subchapter for the government of such corporations formed under it, and each one of the officers of the corporation or company so offending shall be punished by fine not exceeding one thousand dollars, or imprisonment not exceeding one year, or by both fine and imprisonment, in the discretion of the court.

SEC. 748. **Right to Amend or Repeal reserved to Congress.** — Congress may at any time alter, amend, or repeal this subchapter, but any such amendment or repeal shall not, nor shall the dissolution of any company formed under this subchapter, take away or impair any remedy given against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

NEW YORK STOCK EXCHANGE

REQUIREMENTS FROM APPLICANTS FOR LISTING STOCKS OR BONDS

An application signed by an executive officer of a corporation must be filed with the Secretary of the Stock Exchange, and on notice six additional printed or typewritten copies must be filed on or before the Wednesday prior to date set for consideration.

Every application must be accompanied by a check for Fifty Dollars for each $1,000,000, or portion thereof, of the par value of each class of security. Checks should be drawn to the order of " Treasurer of the New York Stock Exchange."

REQUIREMENTS FOR ORIGINAL LISTINGS

Railroad Corporations

Application for an original listing of the capital stock of railroad corporations shall recite the title of the corporation, date of organization and authority for same; special rights or privileges under charter; amount of capital stock authorized, issued, and applied for; par value; rate of dividend; voting power; whether capital stock is full paid and non-assessable; whether personal liability attaches to ownership; whether preferred stock authorized, whether cumulative or non-cumulative; preference as to dividends and distribution of assets; location and route of road; description of property and total mileage in operation; contemplated extensions; total equipment; amount of mortgage lien, amount of other indebtedness or liability, jointly or severally, for leases, guarantees, rentals and car trusts, and terms of payment thereof; distribution of securities; application of proceeds; income account for one year and balance sheet of recent date; name and location of transfer agent and registrar; address of main office of corporation; list of officers and directors (classified); date and place of annual meeting; end of fiscal year.

Application for bonds shall recite in addition the full title; denominations; amount authorized, outstanding, applied for, with numbers, and authority for issue; date and maturity; rates of interest, when and where payable; distribution; names of trustees; redemption by sinking fund or otherwise; terms of exchange or convertibility into other securities; whether issued only in coupon form, registerable as to principal, or fully registered, or both, and if the latter, whether interchangeable; purposes

of issue and application of proceeds; terms of issue of additional amounts; trustees' obligation to declare principal and interest due and payable in event of default, and restrictions or limitations of unusual character; a tabulated list of properties owned, leased and operated, showing those covered by the mortgage or other indenture under which the bonds are issued; those covered by prior liens; indebtedness of leased companies or companies controlled by ownership of bonds and stocks, and the amount of such bonds and stocks owned, authorized, issued, assumed, guaranteed, or deposited as collateral.

If bonds are convertible into stock, file certified copy of the action of stockholders and directors authorizing issue and reservation of stock to be held specifically for such conversion.

When bonds are issued to replace other liens, *the Committee will require evidence of the satisfaction of such liens, or a certificate of trustee that prior lien bonds are held under the terms of the mortgage or indenture.*

A copy of the mortgage or indenture must be furnished, including a certificate from the County Clerk in each county in which the mortgaged property is located, that the mortgage or indenture has been recorded in such county. Should the laws of the State not require a record be made in the several counties, a copy of certificate of the Secretary of the State, showing the legal record, shall be filed with the copy of mortgage or indenture. *This copy must be certified by the Trustee to be a true copy.*

When a mortgage or indenture provides that bonds may be issued interchangeably in coupon and registered form, each registered bond issued thereunder shall bear a legend reciting the number or numbers of the coupon bond or bonds reserved for exchange of such registered bond in substantially the following form:

The within bond is issued in lieu of or in exchange for (a) coupon bond(s), numbered . . . for $1,000 (each), not contemporaneously outstanding, and (a) coupon bond(s) bearing the said serial number(s) will be issued in exchange for this bond upon its surrender and cancellation.

A registered bond not interchangeable shall bear the following:

The within bond is issued in lieu of or in exchange for (a) coupon bond(s), numbered . . . . . for $1,000 (each), not contemporaneously outstanding.

{ *The Committee recommends that when fully registered bonds are to be issued, they shall be made interchangeable with coupon bonds.* }

When mortgages or indentures provide for the issuance of coupon bonds of the denomination of 100 dollars, the Committee recommends that any

ten such bonds be exchangeable into coupon bonds for 1,000 dollars each, and that each unit consisting of ten 100 dollar bonds bear a number together with an affix letter (A to J) representing a 1,000 dollar bond reserved for exchange, and that each 100 dollar bond bear the following legend:

For this bond and nine other bonds of the same denomination and serial number, bearing affixed letters A to J, a coupon bond for $1,000 is held in reserve and is not contemporaneously outstanding, and on the surrender and cancellation of ten $100 bonds of said series a coupon bond for $1,000 will be issued in exchange therefor bearing the lowest serial number reserved for such purpose.

When bonds are to be denominated in foreign moneys, the Committee recommends that the standard of value in United States gold coin be stated, and that the text of all such bonds be in the English language with the foreign text in a parallel column. The English text shall govern the interpretation in all such issues.

Corporations Other than Railroads

Application for an original listing of securities of corporations other than railroads shall recite the title of the corporation, date of organization and authority for same; amount of capital stock authorized, issued and applied for; par value; rate of dividend; voting power; whether capital stock is full paid and non-assessable; whether personal liability attaches to ownership; whether preferred stock is authorized, whether cumulative or non-cumulative; preference as to dividends and distribution of assets, and redemption; whether an original organization or a consolidation of several previously existing firms or corporations; if a consolidation, a concise history of its organization, and the names and locations of constituent companies owned in entirety or otherwise, and amounts of authorized, issued and owned stocks of same; full description of the property, real, personal and leased; real estate owned in fee, acreage and location, and the character of buildings thereon; nature and character of product; business to be transacted; duration of charter and charters of subsidiary companies; special rights and privileges conveyed to the corporation under its charter, or to directors under by-laws; income account for one year and balance sheet of recent date; name and location of transfer agent and registrar; address of main office of corporation; list of officers and directors (classified); date and place of annual meeting; end of fiscal year.

For bond listings the requirements are substantially the same as for bonds of railroad corporations.

Mining Corporations

Application to list securities of mining corporations shall recite details of original organization and authorized capitalization; amount of shares outstanding, amount applied for, amount of shares remaining unissued, and options or contracts on such shares; whether capital stock is full paid and non-assessable; par value; voting power; whether personal liability attaches to ownership; whether preferred stock is authorized, whether cumulative or non-cumulative; preference as to dividends and distribution of assets, and redemption; bonded indebtedness, if any, with date of issue, maturity and rate of interest; list and numbers of patented and unpatented claims; full description of mineral and other lands, leases and water rights, smelting and concentrating plants, timber and fuel supply, owned or controlled; a geological description of the country in which the mines are located showing the character of the ore produced, the proper method of treatment, a description of the ore bodies, average values, and probabilities on further exploration.

A history of the property giving prior workings of mine, results obtained and production each year, with statement of receipts and expenditures, and disposition of income; location of mines and proximity to railway or other common carrier; cost of mining, transportation, milling or smelting; balance sheet showing assets and liabilities; if a mining development and an income account not available, guarantee of an amount to complete development and afford working capital; statement of ore reserves compared with reserves of previous years and an estimate by a competent mining expert of the probable life of the mine; a balance sheet of all companies owned or controlled by stock ownership or otherwise; name and location of transfer agent and registrar; address of main office of corporation; list of officers and directors (classified); date and place of annual meeting; end of fiscal year.

For bond listings the requirements are substantially the same as for bonds of railroad corporations.

Reorganized Corporations

Application to list securities of a corporation, which has been insolvent, or has been reorganized, shall recite a concise history of the corporation, and of its predecessor, with a statement of the reason for its reorganization; history of proceedings if property was sold under foreclosure; description and amount of all securities authorized, issued and applied for by the new corporation; tabulated statement of securities issued in lieu of, or exchanged for any of the preceding issues; purposes and terms in detail

under which additional securities of the reorganized corporation may be issued; amount and description of the various securities which have been retired, canceled, deposited, or otherwise held, or are still outstanding; income account of the predecessor corporation for a period of at least one year prior to reorganization, and final balance sheet; also a balance sheet of the new corporation at date of reorganization; income account for one year and balance sheet of recent date; name and location of transfer agent and registrar; address of main office of corporation; list of officers and directors (classified); date and place of annual meeting; end of fiscal year.

Certificates of Deposit in Trust

Institutions, firms, corporations, depositaries of securities under plans of reorganization, protective or associate action or voting trusts, are requested to accept on deposit *only such securities as are a delivery on the Stock Exchange;* provided, that in any case where said depositaries find it necessary to accept securities which are not a delivery, they shall issue therefor a *distinctive certificate* which will indicate the irregularity. Agreements for deposit of securities for protective or associate action must be limited to a specified time for continuance, within which a plan of reorganization or adjustment will be presented to the certificate holders for acceptance or in default thereof such holders will be granted opportunity to withdraw the securities represented by their certificates, and terminate their agreement. Penalty for delay in depositing securities under any agreement should not be imposed until all holders of such securities have had reasonable opportunity for depositing, after the listing of the certificates of deposit.

Certificates of deposit will be considered as representing the deposit of *coupon, registered, or interchangeable registered bonds. Certificates issued for deposit of* non-interchangeable *registered bonds or bonds not a delivery on the Stock Exchange must bear on their face evidence of such fact.* Certificates of deposit for securities, whether for reorganization, protective or associate action, or for voting trusts, must bear the countersignature of some institution as registrar in same manner as certificates for stock.

Additional Amounts of Listed Securities

Application to list additional amounts of listed securities shall refer to previous applications by number; state character and amount of additional issues and amounts applied for; whether issued for cash, property, or otherwise; distribution; application of proceeds; amount, description and disposition of securities exchanged for new issues; addi-

tional property acquired and present physical condition; furnish income account and balance sheet of recent date; attested copy of resolutions of stockholders and action of directors as to issuance of the additional securities, and opinion of counsel as to validity of issue; trustee's certificate of issue of additional bonds under terms of the mortgage or indenture; certificate from the Secretary of State or other authority for increase in capitalization.

Thirty days' notice of any proposed increase in the authorized capital stock of a corporation shall be given to the Stock Exchange before such increase shall be eligible for listing.

The registrar shall not register any listed stock until authorized by this Committee.

When the capital stock of a corporation is increased through conversion of bonds, already listed, the issuing corporation shall give immediate notice to the Stock Exchange, and this Committee may thereupon add said stock to the list and authorize its registration.

Papers to be Filed with Applications

For listing *stocks:*

Seven copies of the charter or articles of incorporation, one copy to be attested by the Secretary of State in which the corporation is incorporated.

Seven copies of by-laws, one copy to be attested by secretary of corporation.

Seven copies of leases and special agreements, one copy of each to be attested by the secretary of the corporation.

One copy of resolutions of stockholders authorizing issue and of the action of the directors thereunder, each attested by secretary of the corporation.

Opinion of counsel (not an officer or director of the corporation) as to legality of authorization and issue of securities.

Certificate of proper authority for issue.

Certificate of registrar as to amount of securities registered at date of application.

Report of a duly qualified engineer covering the actual physical condition of the property as of recent date.

Map of the property and contemplated extensions.

Specimens of all securities applied for.

In addition to the foregoing, for listing *bonds:*

Six additional copies of the mortgage or indenture.

Opinion of counsel shall cover —

a as to organization,

b as to validity of issue.

Trustees' certificate shall cover —

a as to acceptance,

b as to issuance under the terms of the mortgage or indenture with numbers and amount of bonds issued,

c as to securities held,

d as to cancellation or cremation or deposit of underlying securities, prior liens, etc.

Also, with applications for reorganized corporations:

Certified copies of legal proceedings and order of Court confirming sale, or other authority for reorganization.

Certified copy of plan of reorganization.

Opinion of counsel that the proceedings have been in conformity with legal requirements, that the title to the property is vested in the new corporation, and is free and clear from all liens and incumbrances, except as distinctly specified.

Certificate of cancellation, deposit, or holding of prior issues.

Certified copies of all mortgages or indentures.

Agreements

Every corporation applying to list securities must agree:

That it will not dispose of its interest in any constituent company, or allow any of said companies to dispose of its interests in other companies, except on direct authorization of stockholders of the holding company.

To publish at least once in each year and submit to the stockholders, at least fifteen days in advance of the annual meeting of the corporation, a statement of its physical and financial condition, an income account covering the previous fiscal year, and a balance sheet showing assets and liabilities at the end of the year; also annually an income account and balance sheet of all subsidiary companies;

To maintain a transfer office or agency in the Borough of Manhattan, City of New York, where all listed securities shall be directly transferable, and the principal of all listed securities with interest or dividends thereon shall be payable; also a registry office in the Borough of Manhattan, City of New York, other than its transfer office or agency in said city, where all listed securities shall be registered.

Not to make any change of a transfer agency or of a registrar of its stock, nor of a trustee of its bonds or other securities, without the approval of the Committee on Stock List.

To notify the Stock Exchange in the event of the issuance of any rights or subscriptions to or allotments of its securities and afford the holders of listed securities a proper period within which to record their interests, and that all rights, subscriptions or allotments shall be transferable, payable and deliverable in the Borough of Manhattan, City of New York.

To give at least ten days' notice in advance of the closing of the books or the taking of a record of stockholders for any purpose.

The Committee recommends that a date be fixed as record for dividends, allotment of rights and stockholders' meetings, without an extended closing of the transfer books.

Removals or Suspensions in Dealings of Listed Securities

Whenever it shall appear that the outstanding amount of any security listed upon the Stock Exchange has become so reduced as to make inadvisable further dealings therein, this Committee may direct that such security be taken from the list and further dealings therein prohibited.

The Governing Committee may suspend dealings in the securities of any corporation previously admitted to quotation upon the Exchange, or may summarily remove any security from the list.

Trustees of Mortgages

The Committee recommends that a trust company or other corporation be appointed trustee of each mortgage or indenture; but when a State law requires the appointment of a local individual as trustee, that a trust company or other corporation be appointed as co-trustee.

The Committee will not accept as trustee for securities an officer or director of the applying corporation, nor a corporation as a trustee in which an officer of the applying corporation is an executive officer.

The Committee will not accept the opinion of an officer or director of an applying corporation, nor of a firm in which the officer or director is a member, as counsel on any legal question affecting the corporation; nor will it accept the opinion of an officer or director of a guarantor corporation, on any legal question affecting the issuance of guaranteed securities.

Each mortgage, indenture or deed of trust made by a corporation or constituting a lien on property of the corporation should be represented by a separate trustee.

The trustee shall present a certificate accepting the trust, giving the numbers and amount of bonds executed, in accordance with the terms of the mortgage or indenture; and certifying that the lien has been recorded, that collateral has been deposited, and that prior obligations, if any, have been canceled, when required by the terms of the mortgage or indenture. The trustee holding securities for which listed certificates of deposit are issued must notify the Stock Exchange if the deposited securities are changed or removed for any reason. For additional issues of bonds, the trustee must certify that such increase has been made in conformity with the terms of the mortgage or indenture; that the lien has been recorded against any new property acquired, that the required additional collateral

has been deposited, and that prior obligations, if any, have been canceled, when so required. The trustee shall notify the Stock Exchange of the holding, cancellation, or retirement, of bonds by redemption, or through the operation of the sinking fund, or by purchase.

Transfer and Registry

Every corporation is required to maintain a transfer office in the Borough of Manhattan, City of New York; also a registry office in the Borough of Manhattan, City of New York, other than its transfer office or agency in said city. Both the transfer agency and the registrar must be acceptable to this Committee; the registrar must file with the Secretary of the Stock Exchange an agreement to comply with the requirements in regard to registration.

Certifications of registry must be dated and must bear the signature of a duly authorized officer of the corporation acting as registrar.

The registrar shall not register any listed stock until authorized by this Committee.

A trust company or other agency shall not at the same time act as transfer agent and registrar of a corporation.

When a company has its stock transferred at its own office, a transfer agent or transfer clerk shall be appointed by authority of the board of directors to *countersign* certificates, and shall be an individual other than an officer authorized by the by-laws of the company to sign certificates of stock.

The entire amount of the capital stock of a corporation listed upon the Stock Exchange *must be directly transferable* at the transfer office of the corporation in the Borough of Manhattan, City of New York.

When a corporation makes transfer of its shares in other cities, the certificates issued therefrom shall be interchangeable, and *identical with the New York Certificates*, except as to the names of the transfer agent and the registrar, and the combined amounts of stocks registered in all cities shall not exceed the amount listed.

Interchangeable certificates must bear a legend indicating the right of transfer in New York and other cities.

A change in the form of certificate, of the transfer agency, of the registrar, or of the trustee of bonds, shall not be made without the approval of this Committee.

{ *The Committee recommends that the text of bonds and certificates of stock shall provide for direct transfer without reference to the books of the corporation.* }

Engraved Certificates Required

Every bond, coupon, or certificate of stock, must be printed from steel plates, which have been engraved in the best manner and which have such varieties of work as will afford the greatest security against counterfeiting.

Certificates of deposit of trust companies, banks or firms for securities deposited under reorganizations, voting trusts, or agreements for legal action, must be engraved and printed from steel plates with engraved border and engraved underlying tint.

For each bond, coupon, certificate of stock and certificate of deposit there must be at least two steel plates, viz.: A *face plate* containing the vignettes and lettering of the descriptive or promissory portion of the document which should be printed in black, or in black mixed with a color; and a *tint plate* from which should be made a printing in color underlying important portions of the face printing. The impressions from these two plates must be so made upon the paper that the combined effect of the whole if photographed would be a confused mass of lines and forms, and so give as effectual security as possible against counterfeiting by any process.

The imprint of each denomination of bonds must be of such distinctive appearance and color as to make it readily distinguishable from other denominations and issues. It is required for each class of stock issued that there shall be a distinctively engraved plate for *one hundred shares with said denomination engraved thereon in words and figures;* for certificates issued for smaller amounts, *there shall be a similar plate, distinctive in color, for each issue; there shall be engraved thereon some device whereby the exact written denomination of the certificate may be distinctly designated by perforation;* also conspicuously the words, "*Certificate for less than one hundred shares.*"

The terms of redemption by sinking fund or otherwise, and of conversion into other forms of securities should be recited in the text of bonds.

Certificates of stock should recite ownership, par value, and whether shares are full paid and non-assessable; terms of redemption, preference as to dividends, voting power, or other privilege, including distribution of assets in the event of dissolution of the corporation; certificates for Common and Preferred Stock each shall recite preferences of the Preferred; also the following legend:

This certificate is not valid until countersigned by the transfer agent, and registered by the registrar.

A power of attorney upon the reverse of a certificate of stock must be irrevocable with a bill of sale and power of substitution. The following form is required:

For value received.....hereby sell, assign and transfer unto
.....
.....shares
of the capital stock represented by the within certificate and do hereby irrevocably constitute and appoint
.....attorney
to transfer the said stock on the books of the within named company with full power of substitution in the premises.
Dated.....19.....
.....
In presence of
.....

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular without alteration or enlargement, or any change whatever.

This Committee will object to any security upon which an impress is made by a hand stamp, except for a date or power of substitution.

No stock certificate or bond will be accepted unless it has been engraved by some engraving company *whose work this Committee has been authorized by the Governing Committee to pass upon.*

The name of the engraving company must appear upon the face of each bond and certificate of stock and upon the face of each coupon and the title panel of the bond.

NEW YORK STOCK EXCHANGE

RULES FOR DELIVERY

(Art. XXV, Sec. 3, Constitution)

1. Securities admitted to dealings upon the New York Stock Exchange, Registered and Transferable in the Borough of Manhattan, City of New York, in conformity with the requirements of Section 1, Art. XXXIII of the Constitution, are a delivery: —

(*a*) Certificates of Stock for 100 shares or odd lots aggregating 100 shares, with irrevocable Assignment for each Certificate, and in the name of a member or a member's firm, registered and doing business in the Borough of Manhattan. Certificates for the exact amount or aggregating the amount of an odd lot.

(*b*) Or with irrevocable Assignment witnessed by a member; or correctness of signature guaranteed by a member or a member's firm.

(*c*) Or with irrevocable Assignment and each Power of Substitution witnessed by a member or correctness of signature guaranteed by a member or a member's firm.

(*d*) Coupon Bonds payable to Bearer, in denominations of $500 or $1000 each, with proper coupons of the bond's number securely attached. Small bonds, under $500, only in special transactions. The money value of a missing coupon may be substituted only with the consent of the Committee on Securities for each delivery.

Coupon Bonds exchangeable into Registered Bonds and Convertible Bonds must carry all unpaid and unmatured Coupons.

(*e*) Registerable Coupon Bonds in denominations of $500 or $1000 registered to Bearer, or when transfer books are closed, with an Assignment to Bearer for each bond by a member or his firm or witnessed by a member, or the correctness of the signature guaranteed by a member or his firm, registered and doing business in the Borough of Manhattan.

(*f*) Registered Bonds in denominations not exceeding $10,000 properly assigned.

2. Securities contracted for in amounts exceeding 100 shares of Stock or $10,000 in Bonds, may be tendered in lots of 100 shares of Stock or $10,000 in Bonds, or any multiple of either, and must be accepted and paid for as delivered.

3. Securities with assignment, or Power of Substitution, signed by an Insolvent, are not a delivery. During the close of transfer books,

such securities held by others than the insolvent, are a delivery if accompanied by an affidavit for each certificate or bond, that said securities were held on a date prior to the insolvency.

Securities with Assignment or with Power of Substitution, guaranteed by a member or his firm, suspended for Insolvency, are not a delivery and must be reguaranteed by a solvent member or his firm.

4. Securities with an Assignment or a Power of Substitution executed by a firm that has ceased to exist are not a delivery, except during the closing of the transfer books. The Assignment must be proved or acknowledged before a Notary Public. (Form No. 3, and for witness No. 9.)

Securities with either the Assignment or any Power of Substitution witnessed by a deceased person are not a delivery.

5. Securities assigned, or a Power of Substitution by a firm that has dissolved and is succeeded by one of the same name, are a delivery, when the new firm shall have signed the statement "Execution guaranteed," under a date subsequent to the formation of the new firm.

6. Securities in the name of a corporation or an institution, or in a name with official designation, are a delivery only when the statement, "*Proper papers for transfer filed by assignor*" is placed on each assignment and signed by the Transfer Agent.

7. Securities with an Assignment or a Power of Substitution signed by a deceased person, Trustees, Guardians, Infants, Executors, Administrators, Assignees and Receivers in Bankruptcy, Agents or Attorneys are not a delivery.

8. Securities assigned by a *Married Woman* are not a delivery. A joint assignment and acknowledgment by husband and wife before a Notary Public, will make such security a delivery only *while the transfer books are closed.* (Form No. 4.)

9. Securities in the name of an *Unmarried Woman*, with the prefix "Miss," are a delivery without notarial acknowledgment, when signed "Miss."

10. Securities in the name of an *Unmarried Woman* (without the prefix "Miss"), or a *Widow* are a delivery only when the Assignment is acknowledged before a Notary Public. (Form No. 5.)

11. Securities of a Company whose transfer books are closed indefinitely for any reason, legal or otherwise, the Assignment and each Power of Substitution must be acknowledged before a Notary Public. (Forms No. 2, 3, for witness 8 and 9.)

12. Securities in the name of Foreign Residents are not a delivery on the day the transfer books are closed for payment of a Dividend or Registered interest, *and reclamation can only be made on that day.*

13. Securities in the name of Foreign Residents must be accompanied by an acknowledgment before a United States Consul or Morgan, Grenfell & Co., London, when required by transfer agents.

Several companies having transfer offices at Grand Central Station, New York, make this requirement.

14. Certificate of Stock on which the name of a transferee has been filled in error, may be made a delivery during the closing of the transfer books by ruling of the Committee on Securities. Necessary form of release, cancellation and reassignment will be furnished on application to the Committee on Securities.

15. An endorsement by a member or his firm registered and doing business in the Borough of Manhattan, or the signature as a witness by such a member, of a signature to an Assignment or a Power of Substitution, is a guarantee of its correctness. Each Power of Substitution, as well as the Assignment, must be so guaranteed, or witnessed.

16. The Receiver of Stock may demand delivery by transfer when the transfer books are open, and must give ample time in which to make transfer. The Seller may demand payment for the securities at the time and place of transfer. The Seller may make delivery by transfer when personal liability attaches to ownership.

17. When a claim is made for a dividend on Stock after the transfer books have been closed, the party in whose name the Stock stands may require from the claimant presentation of the certificate, a written statement that he was the holder of the Stock at the time of the closing of the books, a guarantee against any future demand for the same and the privilege to record on the certificate evidence of the payment by Cash or Due Bill.

18. "*Coupon Bonds issued to Bearer, having an endorsement upon them not properly pertaining to them as a security, must be sold specifically as 'Endorsed Bonds,' and are not a delivery, except as 'Endorsed Bonds.'*" — *Extract from Resolutions of Governing Committee, adopted May 23, 1883.*

A definite name of a person, firm, corporation, an association, etc., such as "John Smith," "Brown, Jones & Co.," "Consolidated Bank," appearing upon a Coupon Bond, and not placed there for any purpose of the Company by any of its officers, implies ownership, and is an "Endorsed Bond" under the above resolution.

19. Any endorsement on a Coupon Bond, stating that it has been deposited with a State for bank circulation or insurance requirement, may be released and release acknowledged before a Notary Public; it will then be a delivery as a "Released Endorsed Bond."

"Rights" to Subscribe

20. Assignments of "Rights," with the signature of the assignor witnessed and guaranteed in the same manner as other assignments as provided in these rules, are a delivery: —

(*a*) An Assignment of the "Rights" accruing on each 100 shares; or, Assignments of "Rights" on odd lots aggregating the "Rights" on 100 shares.

(*b*) An Assignment for the exact amount, or Assignments aggregating the amount, on a sale of the "Rights" accruing on an odd lot of stock.

21. Assignments of "Rights" in the name of a *Married Woman, Widow*, or an *Unmarried Woman* are a delivery without notarial acknowledgment.

22. Assignments of "Rights" made by a deceased person or a firm that has ceased to exist are not a delivery, and must be taken back by the party delivering them.

23. Assignments of "Rights" signed by Trustees, &c., or for corporations, &c., are not a delivery, until passed by the Committee on Securities.

24. "Rights" may be dealt in after a day to be fixed by the Committee on Securities. Warrants for Rights are deliverable upon a subsequent day to be fixed by the Committee; after said day all dealings shall be as in other securities.

25. Due Bills for "Rights" accompanying stock, which by ruling of the Committee on Securities, does *not sell* "Ex-Rights" at the closing of the books, must be redeemed on a day fixed by the Committee on Securities.

26. Contracts in Warrants for "Rights" may be enforced "under the rule."

Reference is made to Section 2 of Article XXXII of the Constitution for method of settlement of contracts carrying "Rights" other than those covered by 24 and 25 of these Rules, and also for Rights accruing during the pendency of a contract.

Reclamations

27. Reclamation for irregularity in a security, when such irregularity affects only its currency in the market, must be made within ten days from day of delivery of the security. (Article XXIX, Constitution.) A security with any irregularity having been delivered may be returned up to 2.15 o'clock P.M., to the party who delivered it, who must immediately give the party presenting it either the security in proper form for delivery, or

pay the market price of the security, and assume all liability for non-delivery. In the latter case, the security in proper form may be delivered to the claimant before 2.15 P.M., and the amount paid shall be returned.

Signatures to Assignments and Due Bills

28. *The signature to an Assignment or a Power of Substitution must be technically correct, i.e.* it must correspond in every particular, without any change, with the name in which the security is issued, and the name of the Attorney or Substitute.

The date of an Assignment or a Power of Substitution must be legible, and any correction properly noted by the signer.

(*a*) *Titles* must be prefixed or affixed to signatures exactly as they are in the name in which the security is issued.

(*b*) " Brothers " or " Bros." must be written as it appears in the security.

(*c*) " And " or " & " " Company " or " Co." may be written either way.

(*d*) " *Mr.*," " *Messrs.*," " *Esq.*," or the *Residence or business Address* of an individual or firm need not be made part of the signature.

(*e*) Due Bills must be signed or guaranteed by a member or a firm registered and doing business in the Borough of Manhattan.

The committee recommends : —

That Transfer Agents be given the exact form of the name to which securities are to be transferred.

That the signatures of all members and the firm signatures of each of the partners in a member's firm doing business in the Borough of Manhattan be filed with transfer offices in order to secure promptness of transfer of securities.

Assignments and Notarial Acknowledgments

A detached Assignment of a security must contain provision for the appointment *irrevocable* of an attorney, and substitute, and a full description of the security, *i.e.* name of Company, Issue, Certificate or Bond Number and amount (the latter written in words and numerals) and *must* be acknowledged before a Notary Public with seal and date. This description must be in the same handwriting as the other facts stated. A separate Assignment must accompany each certificate or bond.

In the acknowledgment of an Assignment or Power of Substitution in the name of an individual, the Notary Public must certify with seal and date that he knows the person signing to be the person named in the security, or in the Power of Substitution and that the signer acknowledged his signature. (Form No. 2.)

An Assignment or Power of Substitution in the name of a firm, the Notary Public must certify that he knows the person and knows him to be, or to have been on the date of the execution, a member of the firm, and that he acknowledged that he executed the Assignment or Power of Substitution as the act and deed of the firm. (Form No. 3.)

In proving, before a Notary Public, an Assignment or Power of Substitution, the witness must make deposition that he knows the person who executed the Assignment or Power of Substitution, to be the person named in the Security or Assignment, and saw the signer execute the same. For Assignments of Securities in the name of a firm, the witness must make deposition that he knows the party signing to be (or to have been at the date of execution) a member of the firm. (Forms 8 and 9.)

Any alteration in the wording of an Assignment must be stated over the signature of the party signing.

Any alteration in a Notarial Acknowledgment must be noted by signature of the Notary.

Interest Paying Bonds

RULES FOR DEALING

In settlement of Contracts in INTEREST PAYING BONDS the interest shall be computed to the day of maturity of contract on regular sales or on sales at three days, at the rate specified in the bond; and on time option contracts, interest specified in the bond shall be computed to include the day of sale, and thereafter at the rate of interest agreed upon.

Contracts made after default in payment of interest and during continuance of default shall be " flat."

Bonds upon which the interest is in default *shall carry all unpaid coupons.*

REGISTERED BONDS will not sell Ex-interest on the day the books close for payment of interest. In settlement of Contracts in Interest Paying Registered Bonds, interest must be added to the date of the maturity of Contract, and a Due Bill, signed by the party in whose name the bond stands, for the full amount of the interest to be paid by the Company, must accompany the bond until interest is paid; the Due Bill issued by a non-member must be paid when due by the Exchange member or firm guaranteeing it.

On a contract in Interest Paying Bonds " Seller's or Buyer's Option " at a rate agreed upon (as Seller or Buyer 20, 2 per cent), the interest specified in the bond shall be computed to and including the day of sale; and thereafter interest at the agreed rate shall be computed on the Contract

price plus accrued interest. An agreed rate of interest must be computed for *actual elapsed days*.

Interest *at the rate specified* in an Interest Paying Bond must be computed on a basis of a 360-day year; *i.e.:*

Every calendar month is $\frac{1}{12}$ of 360 days = 30 days;

Every period from a date in one month to the same date in the following month is 30 days.

Income Bonds must be dealt in "flat."

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LIST OF FORMS REFERRED TO OR DESCRIBED

[* Form reproduced]

Banking Department

	PAGE
Deposit slip	45
Deposit slip for coupons	45
Pass book	46
*Receiving teller's daily settlement	48
Record of collections	49
Collection maturity index	49
Pay-roll slip	52
*Paying teller's daily settlement	56
*Certification stamp	56
*Charge slip	57
Stop payment order	57
Record of stop payment orders	57
Signature card	62
*Record of deposit accounts opened	62
*Record of deposit accounts closed	62
*Individual depositors' ledger	64
Individual depositors' scratcher	68
*Individual depositors' daily balance and interest slip	70
*Interest table (one day @ 2%)	71
Monthly statement envelope	71
Overdraft notice	74
"Star" deposit slip	74
"Star" charge slip	74
Check books	74
Vouchers and voucher checks	75
*Note	82
*Loan accession book	84
*Demand loan ledger sheet	84
Notification of change in interest rate	86
*Interest bill	86
*Time loan ledger sheet	86
Bills receivable ledger sheet	87
*Collateral record sheet	88
Collateral index	88
*Substitution of collateral slip	88
Loan envelope	90
*Investment ledger	96
Distribution of interest accrued	97
Letter of credit	99
Letter of credit guarantee	100
Record of letters of credit issued or guaranteed	100
Travellers' check	101
Stock ledger	104
Stock certificate	104
Stock transfer book	104
Index of stockholders	104
Dividend list	105
*Dividend check	105
Index of contracts	106

	PAGE
Order book	106
*Special order book for check books	106
Expense check	107
Record of expenses	108
Voucher index	110
Petty cash receipts book	110
Petty cash payments book	110
Salary list	111
Salary book	111

Corporate Trust Department

Record of corporation mortgages:	
*Abstract sheet	117
*Record of bonds received, certified and delivered	119
*Record of bonds paid, cancelled, and cremated, or returned	119
Record of registered bonds issued in lieu of coupon bonds, and *vice versa*	122
Coupon envelope	123
Petty cash book	123
Scratcher	123
Statement of coupons paid	124
*Letter of advice and receipt for paid coupons	124
Dividend list	124
Dividend check	125
*Dividend notice	125
*Stock register	129
Stock certificate	132
*Power of attorney to transfer stock	133
*Power of substitution	133
*Stock transfer book	135
Stock transfer book (alternate form)	135
Stock ledger	136
Stock transfer sheet	138
Temporary certificate of deposit of securities	140
Engraved certificate of deposit of securities	140
Reorganization record	142
Record of corporate trusts	144

Individual Trust Department

Power of attorney	152
Index of securities:	
*Security card	156
*Estate card	156
*Receipt card	158
Maturity index	159
Portfolios for securities	159
*Coupon bond label	161
*Coupon collection sheet	162
Coupon envelopes	164
Coupon credit slip	164
Coupon credit book	164
Request for notice of calls	165
Record of interest in default	166
Application for mortgage loan	166
Bond and mortgage	167
*Mortgage ledger	169
Mortgage charge slip	170
Mortgage bill and credit slip (principal)	170
Mortgage bill and credit slip (interest)	170

	PAGE
Mortgage scratcher	171
Index of mortgagors and interest payers	171
Mortgage location index	172
Mortgage maturity index	172
Lease	175
*Rent ledger	177
Index of properties	179
Index of tenants	179
Index of expiration of leases	179
Record of properties rented and vacated	179
Rent bill and credit slip	179
*Inspection card	179
Agreement to buy and sell	179
Memorandum of settlement	179
Key envelopes	181
Order for repairs	181
Bill for repairs	181
Insurance maturity book or index	182
Insurance, estate index	182
Insurance, location index	182
Insurance, line index	183
Policy envelope	183
Insurance slip	183
Insurance expiration notice	183
Trust credit slip	184
Receiving teller's settlement	185
Disbursement index	186
Trust charge slip	186
*Trust check	186
Daily settlement of trust disbursements	188
*Record of trust securities received	188
*Record of trust securities delivered	189
Record of individual trusts:	
*Abstract	190
*Coupon bonds	190
*Stocks	190
*Notes and miscellaneous securities	190
*Registered loans	190
*Mortgages	190
*Real estate	197
Estate index	197
Will book	198
*Individual trust ledger	198
Individual trust scratcher	199
Individual trust daily balance and interest slip	200
Trust general ledger	201
Trust general cash book	203
Trust general journal	203
Trust comparative daily balance sheet	203
Trust comparative monthly balance sheet	204
Monthly statement of trust accounts opened and closed	204
Index of trust balances for investment	207

Safe Deposit Department

	PAGE
*Receipt for safe rent	213
*Receipt and identification card — safe	213
*Appointment and identification of deputy	216
Rent ledger card	217
Bill for safe rent	217
Credit slip for safe rent	217
Charge slip for refunding rent	218
*Corporate resolution giving access to an individual	218

PAGE

*Corporate certificate of election of officers 219
*Certificate of deposit of valuables 219
*Receipt and identification card — valuables 220
Ledger card 222
Bill for deposit of valuables . 222
Credit slip for payments for deposit of valuables . . . 222
Tag 222
Delivery order for valuables . 222
Receipt for valuables . . . 222
Record of visitors 222
*Cash and record book . . . 224
*Comparative monthly report . 224

Savings Fund Department

*Signature card 226
Savings deposit book . . . 226
Savings deposit slip 226
*Withdrawal notice 227
*Withdrawal slip 227
*Ledger card 229
Scratcher 229

General Accounting

General ledger 234
General cash book 240
General journal 240
Daily trial balance 241
*Comparative daily balance sheet 241
Comparative monthly balance sheet 241
Monthly balance sheet . . . 242
Daily cash report 242

Correspondence or Mail Room

Record of registered mail . 250
Vertical letter file 251
Finding index 251
Dummy sheet 254

Office Building

Record of persons entering and leaving building 260

Purchase and Care of Supplies

*Inventory and schedule of annual order of supplies . . 263
Record of supplies received . 265
Requisition for supplies . . 265
Stock record card 265
Sample book 266
Index of forms 266

INDEX

Abstract sheet — corporate trusts, 145; corporation mortgages, 117–119; individual trusts, 189, 190; registrar, 128; transfer agent, 135.
Access — to building, 258, 260; to safe deposit box, 211, 214–219; to trust securities, 153.
Accession book — collection items, 49; deposit accounts, 62; loans, 82, 84; trust securities, 153, 158, 179, 188, 197.
Accession number, trust accounts, 144, 197, 198, 254.
Accident liability insurance, 181.
Accountant, examination by certified public, 247.
Accounting — to beneficiaries, 198, 200; to court, 150, 152, 198, 200.
Accounts — of assignee, 144; Boston system, 64; corporate trust, 144; court, 73; deposit, closed, 63; deposit, new, 62; duplicate systems, 64; general ledger, 235–240; inactive, 73; individual trust department, 196–200; receivable, 236; of receiver, 144.
Accrued — commissions, 208; interest on investments, 96–97; interest payable, 238, 240; interest receivable, 236.
Actuary, 29.
Addressing machine, 125, 250.
Adjudication of court, 150.
Administrator, 8, 150, 205.
Advantages of trust company as trustee, 4.
Advertising, 99, 266–267; item in expense account, 108; real estate, 174.
Agent, 10, 152; commissions as, 146, 208; for corporations, 144; fiscal, 7, 39, 122–126; for real estate, 173; transfer, 7, 40, 129.
Agreement for sale of real estate, 179.
Annuities, 11, 186, 230.
Applications — for mortgages, 166, 253; for positions, 253.
Appointment and identification of deputy, card, 216, 221.
Appointments, made by President, 34.
Assessments on securities deposited, 142.
Assets — general ledger, 235; separation of trust from company's, 4, 147–148.
Assignee, 8, 10, 142–144, 146, 152.
Assignment — deed of, 143; of mortgage, 167.
Attorney, 9, 152, 205, 208; power of, 82, 133, 152.
Audit, 243–248; by court, 150, 152, 188; of depositors' ledger, 67; of rent ledger, 177.
Auditor, 233–234.
Australia — land transfer acts, 176; trustee companies in, 5.

Balance and interest slip — individual depositors', 68–70; individual trusts, 200, 207.
Balance sheet, 144, 235; comparative, 203, 241; expenses included in daily, 109; monthly, 242; trust general ledger, 202.
Balance, trial, 234, 241; individual trusts, 200; savings department, 229.
Balances for investment, index of, 207.
Bank — of England, 92; exchanges, 54; statements, 43.
Banking — commissioner of, 243; department, 43–112; functions of trust companies, 6; — house, furniture, and fixtures, general ledger account, 236; by mail, 51.
Banks and bankers, due to, general ledger account, 237.
Beneficiaries of trust estates, 151; accounting to, 198, 200; index of, 254.
Bibliography, 297.
Bill — deposit of valuables, 222; expenses, 107; interest on loans, 86; mortgage interest and principal, 168, 170, 171; rent, 175, 179; rent of safe, 217; repairs, 181, 188.
Bills receivable, 78; general ledger account, 235; ledger sheet, 87.
Board of Directors, 23–27; chairman of, 28; minutes, 38.
Boiler insurance, 181.
Bond — department, 98, 206; issue secured by mortgage, 236, 238; and mortgage, form of, 167.
Bonds — cancellation of, 117; care of, 153–155, 159; certified by trustee, 115; coupon, arrangement of, 160; coupon and registered, interchangeable, 122; cremation of, 117; delivered by trustee, 115; due or called, 50, 165; fidelity, 231, 256; general ledger, account, 236; index of coupon, 155–156; index of registered, 157; label for coupon, 161; mortgage to secure, 113, 236; record of, paid, cancelled, and cremated or returned, 119, 121; record of, received, certified, and delivered, 119, 120; registered 153; required of trustees, etc., 2, 149, 151;

subject to redemption, 124; transfer of registered, 138.
Book — coupon bonds, 97, 160; value of building and fixtures, 261.
Bookkeeper — general ledger, 240; individual depositors, 63; savings department, 227; trust department, 184.
Boston — clearing house, 59; system of ledger accounts, 64.
Branch offices, 19.
Brief of title, 167.
Building, 259–261; maintenance of, 109; record of persons entering and leaving, 260.
Burglary insurance, 181.
Burial lot funds, 176.
By-laws, 19, 39.

Call loans, 78.
Called bonds, 165; requests for notice of, 165.
Cambist, 104.
Cancellation of bonds by trustee, 117.
Cancelled — certificates, 135; coupons, letter of advice and receipt for, 124.
Capital stock, 19; general ledger account, 239; market value, 20; minimum required, 15–18.
Car trust, 116.
Card index, see *Index*.
Cash — errors in 53, 239; general ledger account, 235; petty, for payment of coupons, 123; petty, payments, 110; petty, receipts, 110, 240; receipts, safe deposit department, 213, 224; report, 242; trust general ledger, 171, 201; uninvested trust, 148, 185, 188, 199, 200, 201, 207.
Cashbook — corporate trusts, 144; general, 240; individual trusts, 189; petty payments, 110; petty receipts, 110; and record, safe deposit department, 224; trust general, 171, 203.
Certificates — of appointment of executor, 150; cancelled, 135; of deposit, 47, 55, 237; of deposit of securities, 140–142; of deposit of valuables, 219, 224; of "no defence" or "no set-off," 167; receivers', 143; stock, 129, 132.
Certification — of bonds, 115, 145; stamp, 56.
Certified checks, 56; general ledger account, 238.
Certified public accountant, 247.
Charge slips, 57; certified checks, 57; mortgages purchased, 170; safe deposit department, 218, 224; "star" entries, 74; trust department, 186, 199.
Charities, trusts for, 151.
Charter, 14–18.
Check books, 74, 106.
Checks — cancelled, 68, 71, 73; certified, 56, 238; clearing trust company, 57–61; dividend, 105, 125; for expenses payable, 107; indorsement of, 54; lost, 57; order book for, 106; payment of, 54; posted, 67; for repairs, 181; salary, 111; travellers', 101; trust, 186, 187.
Chicago Clearing House, 58.
Cleaners, 259.
Clearing House — Boston, 59; Chicago, 58; New York, 58; Philadelphia, 58; Pittsburg, 59; certificates, 77.
Clearing trust company checks, 48, 57–61.
Clerical force, 256–258.
Closed — deposit accounts, 63; corporate trust accounts, 122; individual trust accounts, 197, 198.
Coal trust, 116.
Co-assignee, 143.
Co-executor, 149, 207.
Coin counting devices, 52.
Collateral, 78–82; arrangement of, 90; changes slip, 252; index, 82, 88; inheritance tax, 149; mortgage bonds issued by trust company, 99; power of attorney to transfer, 82; record, 82, 88, 89; substitution of, 88, 91, 116; trusts, 116.
Collection — items deposited for, 48; maturity index, 49; record, 49; sheet, coupons, 162, 163; sheet, dividends, 165; sheet, registered interest, 165; window, 45.
Collector, rent, 175.
Commercial paper — discounting, 78, 88; general ledger account, 235; ledger, 87.
Commissioner of banking, 243.
Commissions, 186; on corporate trusts, 145–146; general ledger account, 239; individual trusts, 198–199, 207–208; on letters of credit, 101; trust general ledger, 201.
Committee — of board of directors, 25; of estate, 9, 152.
Company's general ledger, 234–243.
Comparative — balance sheets, 241; monthly report, safe deposit department, 223, 224; trust department, balance sheet, 203, 204.
Competitive bids for supplies, 263.
Comptroller of currency, 243.
Conservator, 9, 152.
Contracts — deposit of valuables, 220; index of, 106; rent of safe, 214; for supplies, 265.
Controller, 233–234.
Conveyancing, 167, 231, 176.
Copier, roller, 251.
Corporate — resolution giving access to safe, 218; certificate of election of officer, 219.
Corporate trust department, 113–146; manager of, 39.
Corporate trusts, 6–8; accounts, 144–145; closed, 122; ledger, 145; record of, 117, 122, 128, 135, 144–145.

Corporation mortgage, 113; in default, 114, 140; record of, 117–122.
Correspondence, 38, 249–256; real estate, 176, 254.
Co-trustee, 151, 207.
Counsel, for trust estates, 148.
Coupon bonds — arrangement of, 160–162; due or called, 165; index, 155–156; label, 161; record individual trusts, 190, 191; record of, issued in lieu of registered, 122; registered, 124.
Coupon mortgage loan, 171.
Coupons, 162; collection of, 184; collection sheet, 162, 163; credit book, 164; cutting, 154, 159, 162, 164; credit slip, 164; deposit of, 45, 50; in default, 166; envelopes, 123, 164; letter of advice and receipt for paid, 124; paid by fiscal agent, 122; scratcher for paid, 123; statement of paid, 124.
Court — accounting to, 150–152, 198, 200; appointment of receiver by, 143; fixes compensation, 207; probate, surrogate, or orphans', 149.
Credit accounts, general ledger, 235.
Credit book — coupon, 164; interest, 165; dividend, 166.
Credit, letters of, 99; guarantee, 100; record of, issued or guaranteed, 100.
Credit slips — coupon, 164; deposit of valuables, 222, 224; dividend, 165; interest, 165; mortgage interest and principal, 170; rent, 177, 179; rent of safe, 217, 224; trust, 184, 199.
Cremation of bonds by trustee, 117.
Curator, 9, 152.
Custodian, 10, 153.

Daily balance and interest slip — individual depositors', 68–70; individual trusts, 200, 207.
Debit — accounts, general ledger, 235; balances, trust department, 186.
Debts, preferred, 149.
Deed — of assignment, 143; trustee under, 151.
Default, record of interest in, 166.
Delivered, record of securities, 159, 179, 189, 197.
Delivery — of bonds by trustee, 115; "good," 82, 132, 133; order for valuables, 222; rules of New York Stock Exchange for, 290; of trust securities, 154, 234.
Demand loans, 77; form of note, 82, 83; general ledger account, 235; interest on, 84, 86; ledger, 84, 85; notice of change of rate, 93.
Deposit — book, savings department, 226; certificates of, general ledger account, 237; certificate of, of securities, 140–142; certificate of, of valuables, 219–222, 224; of securities, 212, 213; of valuables, 212, 219–222.
Deposit slips, 45, 46; for coupons, 45; filed, 73; posted, 67; savings department, 226, 229; "star" entries, 74.
Depositary, 10, 153; under plan of reorganization, 8, 140; commissions, 146.
Depositors, individual — accounts opened, 61; bookkeeper, 63; daily balance and interest slip, 69; index, 62; interest allowed, 68–72; ledger, 63–68; monthly statements, 46, 71; record of, accounts opened, 62; record of, accounts closed, 62; scratcher, 68; trial balances, 67.
Depository, 2.
Deposits — care of, 61–75; for collection, 48; coupon, 45; interest allowed on, 43; made without pass-book, 46; by mail, 51; receipt of, 45; savings, 237; special, 237; subject to check, 237, 238; of trust companies with banks, 56.
Depreciation of plant, 261.
Deputy, appointment and identification of, 216, 221.
Directors, 23–27; chairman of board of, 28; examination by, 245–248; item in expense account, 108; loans to, 79.
Disbursements of trust funds, 185–188; index of, 186.
Discounting commercial paper, 78, 87.
Distribution — of expenses, 107–110; of interest accrued, 97.
District of Columbia, trust companies in, 13, 232, 269.
Dividend — check, 105, 125; collection of, 165; declared, 137; general ledger account, 238; list, 105, 124, 137; notice, 105, 125; orders, 50, 104; paid by fiscal agent, 124; record in security index, 157; on trust company's stock, 104.
Domestic exchange, 101.
Double liability of stockholders, 23.
Drafts — foreign, 102; received for collection, 48.
Due to banks and bankers, general ledger account, 237.
"Dummy" sheet, trust correspondence, 254.
Duplicate systems of ledger accounts, 64.
Duplicating systems, 250.

Election of officers, notice to safe deposit department, 219.
Employees, 256–259.
England, Bank of, 92.
Envelopes — for coupons, 123, 164; for insurance policies, 183; for keys, 181; loan, 90; "outlook," 125; salary, 111.
Equipment, maintenance of, 109.
Errors in cash, 53, 239.

Escrow, 10, 141, 153.
Estate index, 197; insurance policies, 182.
Examinations, 234, 243–248.
Examiners, state bank, 243–244.
Exchange — against merchandise, 103; arbitration of, 103; domestic, 101; foreign, 102.
Exchanges — bank, 54; clearing house, 57–61.
Executor, 8, 148–151; commissions, 207–208; investments, 205.
Expense account, 106–110.
Expenses — check, 107; distribution of, 108; general ledger account, 109, 110, 238, 240; index of, 110; legal, 108; miscellaneous, 109; payable, general ledger account, 108, 110, 238, 240; record of, 107–110.
Expiration — notice, collateral insurance, 183; of leases, index, 179.
Express company, agreement to transport valuables, 222.

Farmers' Loan & Trust Co., N. Y., 2.
Fidelity insurance, 5, 11, 230, 256.
Filing system, vertical, 251–255.
Finding index, correspondence, 251.
Fire insurance, 181–183; collateral with mortgage, 168, 172, 181–183.
Fiscal agent, 7, 39, 122–126; commissions, 145.
Flat coupon bonds, 97, 160.
Foreclosure of mortgage, 169.
Foreign exchange, 102.
Forms and equipment, index of, 266.

General ledger, 95, 99, 108, 109, 110, 234–243; corporate trust, 144; trust, 188, 199, 201–204.
General officers, 28–42, 108, 206, 233.
Girard Trust Company, Philadelphia, 2.
Good delivery, 82, 132, 133.
Government regulation, 11–13.
Great Britain, Public Trustee Act, 13.
Ground rents, 172, 197; general ledger account, 236.
Guarantee of letter of credit, 100.
Guardian, 9, 152; investments, 205.

Housekeeper, 259, 261, 262.

Identification card — depositor of valuables, 221, deputy, 221; safe renter, 213, 215, deputy, 216.
Illinois, banking laws, 18, 43.
Illinois Trust and Savings Bank, 225.
Inactive accounts, 73.
Income — distinction between principal and, 96, 185; general ledger, 235; individual trust ledger, 198; trust general ledger, 201.
Index — balances for investment, 207; beneficiaries, 254; closed deposit accounts, 63; collateral, 82, 88; collection maturity, 49; contracts outstanding, 106; correspondents, 251; depositors of valuables, 220–221, 224; forms and equipment, 266; individual depositors, 62; insurance policies, maturity, estate, location, and company, 182, 183; leases maturing, 179; mortgage correspondence, 255; mortgage interest payers, 170, 171; mortgage location, 172; mortgage maturity, 172; mortgagors and interest payers, 171; real estate correspondence, 254; real estate location, 179; safe renters, 213–215, 224; safes rented, 217; securities, 155–159, 162, 165; securities maturing, 159; securities for sale, 99; signatures, depositors, 62; signatures, savings department, 225, 226; stockholders, 104, 126; tenants, 179; trust disbursements, 186; trust estates, 197, 254; trust securities, 155–159; valuables deposited, 220, 221; voucher, 110.
Individual depositors — accounts opened, 61; bookkeeper, 63; daily balance and interest slip, 69; index, 62; interest allowed, 68–72; ledger, 63–68; record of accounts opened, 62; record of accounts closed, 62; scratcher, 68; trial balances, 67.
Individual trusts, 8–11; daily balance and interest slip, 200, 207; department, 147–208; ledger, 179, 198–200; manager of department, 40; record of, 153, 188–198; scratcher, 199, 200; trial balances, 200.
Indorsement of checks, 54; by trust department, 185.
Inspection card, real estate, 179, 180.
Inspectors, real estate, 175.
Insurance, 5, 11; clerk, 182; collateral with mortgage, 168, 172, 181–183; expiration notice, 183; life, fidelity and title, 230–232; on real estate, 181; records, 182–183; risks not compatible with trust business, 6, 12, 232; slip or memorandum, 183.
Interest — accrued payable, 238, 240; accrued receivable, 96, 236; and balance slip, 69, 200, 207; bill, 86; collection of, 165; distribution of accrued, 97; in default, record of, 166; on loans, 78, 84, 86, 92; on mortgages, 168; orders deposited, 50; paid depositors, 43, 68–72, 238, 240; paid by fiscal agent, 126; rate, notice of change in, 86, 93; receipts, 236, 239; record in security index, 157; on savings accounts, 229; table (1 day @ 2%), 72.
Intestate laws, 150.
Inventory, 149, 152; and schedule of annual order for supplies, 263, 264.
Investment — index of balances for, 207; ledger, 96.
Investments — assigned by trust officer, 41; corporate trusts, 145; individual trust ledger, 199; interest accrued on, 96;

"legal," 93, 205; made by President and finance committee, 34; for trust accounts, 204–207; of trust company, 93–98; trust general ledger, 201.
Irredeemable ground rent, 172.

Joint access, to safe deposit box, 211, 216.
Journal — general, 240; corporate trusts, 144; entries, 110, 236, 238, 239; trust general, 203.

Keys — envelopes for, 181; for safe deposit boxes, 217.

Label, coupon bond, 161.
Land transfer, Torrens Act, 176.
Leases, 175; index of expiration of, 179.
Ledger — audit of depositors', 67; authority for entries in depositors', 74; bills receivable, 87, 88; bond, 138; commercial paper, 87, 88; corporate trust, 145; corporate trust, general, 144; demand loan, 84, 85; deposit of valuables, 222; general, company's, 108, 109, 110, 234–243; individual depositors', 63–68; individual trust, 179, 198–200; investment, 96; loan, 82, 84–87; mortgage, 169; rent, 177, 178; rent of safes, 217; savings department, 227–229; securities for sale, 99; stock, 104, 124, 137; temporary investment, 96; time loan, 86, 87; trust general, 188, 199, 201–204.
Legacies, 149, 188.
Letters — copied, filed, etc., 249–256; of credit, 99–101; testamentary, 149.
Liabilities, general ledger, 235.
Liability — of safe deposit company, 211, 217; of stockholders, 23; of trust company, 154; of trustee under corporation mortgage, 6, 113.
Life insurance, 5, 11, 230.
Lighting and heating, expense account, 108.
"Line" index, insurance policies, 183.
Listing stocks or bonds, requirements New York Stock Exchange, 279.
Loans, 77–92; accession book, 82, 84; called, 37, 78; clerk, 77, 82; demand, 77, 82–86, 235; envelopes for, 90; general ledger accounts, 235; ledger, 82, 84–87; margin on, 81, 90; to officers and directors, 79; rate of interest on, 78, 84, 92; time, 86, 87, 92, 235; treasurer responsible for, 36.
Location index — insurance policies, 182; mortgages, 172; real estate, 179.
Loss, profit and, 239, 240.
Luncheon room, 261–262; itemized expenses, 109.

Mail — deposits by, 51, 252; room, 249–256.
Maintenance — of building, 109; of equipment, 109.
Manager — of Corporate Trust Department, 39; of Individual Trust Department, 40; of underwriting syndicates, 139, 145.
Margin, on collateral loans, 81, 90; ten-point rule, 81.
Marriage settlement, deed of, 151.
Maryland, ground rent in, 172.
Massachusetts — incorporation and reserve fund of trust companies, 16; regulation of trust companies in, 12, 39.
Maturity — of mortgage loans, 168; notice, time loans and commercial paper, 86.
Maturity index — collection items, 49; insurance policies, 182; leases, 179; mortgages, 172; securities, 159.
Messengers and watchmen, 258; expense account, 108.
Minutes, of Board of Directors, 38.
Miscellaneous securities — arrangement of, 159; index of, 157; record of individual trusts, 190, 193.
Money — new, 52; rate, 92.
Mortgage, 166–173; abstract of corporation, 117; application for, 166, 253; assignment of, 167; bills, 168, 170; charge slip, 170; correspondence, 255; credit slip, 170; foreclosure of, 169; general ledger account, 236; held for trust estates, 168; index of payers, 171; insurance, collateral with, 172, 181–183; interest on, 168; ledger, 169; location index, 172; maturity index, 172; record of corporation, 117–122, 145; record of individual trusts, 190, 195; recorded, 167; satisfaction of, by trustee, 117; scratcher, 171; to secure bond issue, 113, 236; settlement, 167, 170.
Mortgagors, index of, 171.
Mutual insurance companies, 21, 230.

National Banking Act, 23, 232, 269–278.
New accounts — depositors', 61; savings department, 226.
New York — bank statement, 43; clearing house, 58; general trust company law, 14; money centre of United States, 92; stock exchange rules, 127, 132, 279–296.
New York Life Insurance and Trust Company, 2.
New Zealand — Public Trust Office, 13; trustee companies in, 5.
"No defence," or "no set-off," certificate of, 167.
"No protest," 50.
Notes — arrangement of, 90; collection of, 166; form of, 82, 83; and miscellaneous securities, individual trusts, 157, 190, 193; received for collection, 48.
Notice — change of interest rate, 86, 93; elec-

tion of officers, 219; expiration of collateral insurance, 183; withdrawal, savings department, 227.
Numerical filing system, 251.

Office building, 259–261.
Officers, 28–42; general, 28–42, 108, 206, 233; loans to, 79; positions combined, 28, 35, 37, 38, 41.
Order book — for repairs to real estate, 181; special for check books, 106; for supplies, 106, 265.
Organizing a trust company — under special acts, 14; under general laws, 14–18; in Illinois, 18; in Massachusetts, 16; in New York, 14; in Pennsylvania, 15.
Orphans' court, 149.
Overdraft notice, 73.

Pass book, 45, 46, 49, 63, 64; deposits made without, 46; settled, 71, 73.
Pay roll, 111; slip, 52.
Payers, mortgage interest, index of, 171.
Paying teller, 51–57, 213, 218; savings department, 229; settlement book, 55, 56; trust department, 185–188.
Payments book, petty cash, 110.
Pennsylvania — executor and trustee in, 208; general corporation law, 15; ground rent in, 172; title insurance and trust business combined in, 232.
Pennsylvania Company for Insurances on Lives and Granting Annuities, 2.
Pensions, 258.
Perpetuity, trusts in, 151.
Petty cash — for payment of coupons, 123; payments, 110; receipts, 110, 240.
Philadelphia — clearing house, 58; ground rents, 236.
Phonograph, used for dictation, 250.
Pittsburg, clearing house, 59.
Plant, depreciation of, 261.
Plate glass insurance, 181.
Portfolios, for securities, 90, 97, 159, 160, 161.
Postage stamps, general ledger account, 236.
Postings — general ledger, 240; individual depositors' ledger, 65–68; savings department ledger, 229; stock ledger, 137; trust ledger, 199.
Power of attorney — general or special, 9, 152; to transfer collaterals, 82; to transfer securities, 126; to transfer stock, 133.
Power — of sale, 173; of substitution, 133.
Premium, charged off, 96, 97, 206.
President, 29, 31–35.
Principal — accounts, general ledger, 235; distinction between income and, 96, 185; individual trust ledger, 199; paid by fiscal agent, 126; trust general ledger, 201.
Probate court, 149.
Profit and loss, general ledger account, 201, 239, 240.
Profits, undivided, general ledger account, 239, 240.
Promotions, 257.
Properties — index of, 179; rented and vacated, record of, 179.
Protest, notes, etc., 50.
Proxy, voting by, 22.
Public Accountant, examination by, 247–248.
Public Trustee, 13.
Purchase — ledger, 110; — money mortgage, 167; of supplies, 262–266.

Quotations, stock, 80.

Rate of interest on loans, 78, 84, 92; notice of change of, 86, 93.
Real estate, 173–181; correspondence, 254; department, 173; general ledger account, 236; held by trust company, 94, 259; inspection card, 179, 180; insurance on, 181–183; officer, 173; records, 175; resolutions authorizing sale of, 39; sheet, record of individual trusts, 196, 197.
Rebates, rent of safe, 218, 224.
Receipt — and identification card, rent of safe, 213, 215; and identification card, deposit of valuables, 220, 221; for letters borrowed from files, 249; for pass book and cancelled checks, 73; for rent of safe, 213, 214, 224; of savings deposits, 226; for securities delivered, 154, 157, 158; for taxes, 168, 169; temporary, for securities deposited, 140; of trust funds, 184–185, 234; for valuables, 222.
Receipts book, petty cash, 110.
Received, record of securities, 153, 158, 179, 188, 197.
Receiver, 8, 10, 143, 152; accounts, 144; commissions, 146.
Receivers' certificates, 143.
Receiving teller, 44–51, 213, 218; daily settlement, 47, 48; savings department, 226; trust department, 164, 170, 184–185.
Record — of bonds paid, cancelled, cremated, or returned, 119, 121; of bonds received, certified, and delivered, 119, 120; of collateral, 82, 88, 89; of collections, 49; of corporate trusts, 117, 122, 128, 135, 144–145; of corporation mortgages, 117–122, 145; of deposit accounts closed, 62; of deposit accounts opened, 62; of expenses, 107, 110; of individual trusts, 153, 188–198; of interest in default, 166; of letters of credit issued or guaranteed, 100; of persons entering safe deposit department, 210, 222; of properties rented and vacated, 179; of registered mail, 250; of safes rented and surrendered, 224; of securities delivered, 159, 179, 189, 194; of

securities received, 153, 158, 179, 188, 197; of stop payment orders, 57; of supplies, 265; of valuables deposited and withdrawn, 224.
Recording — of mortgage, 167; of title to real estate, 176.
Redeemable ground rent, 172.
Redemption — bonds subject to, 124; provisions, 115, 165.
Register, stock, 129, 130.
Registered bonds — care of, 159; index of, 155–157; record of individual trusts, 190, 194; record of, issued in lieu of coupon, 122; transfer of, 138.
Registered mail, record of, 250.
Registrar, 7, 40, 127–129; commissions, 145; contract with, 127.
Registration — of real estate transfers, 176, 231; of trust securities, 153.
Regulations, of safe deposit department, 214, 220.
Release, 188; deposit of valuables, 221.
Remittance clerk, 185, 254.
Renewals, safe deposit department, 224.
Rent — bill, 175, 179; collection of, 175, 177; credit slip, 179; insurance, 181; ledger, 177, 178; lists, 174; of safes, 210; receipt for, of safes, 213, 214.
Rentals — safe deposit department, 224; general ledger account, 239.
Reorganization — depositary under plans of, 8, 140–142; record, 142.
Repairs — to real estate, 173, 174, 181, 186; bills for, 181, 188; charged to income, 261; checks for, 181; inspection of, 175; orders for, 181.
Reports, 234; daily cash, 242; safe deposit department comparative monthly, 224; to state banking department, 94, 242, 243; to stockholders, 22, 242.
Requisition, for supplies, 265.
Reserves, 12, 75–76; required in Massachusetts, 17; to secure policy holders, 230.
Resolution, giving access to safe deposit box, 218.
Responsibility of trust companies as corporate trustees, 6, 113.
Restaurant, 261–262; itemized expenses, 109.
Risks, insurance, etc. not compatible with trust business, 6, 12, 94, 232.
Roller copier, 251.

Safe deposit department, 11, 109, 209–229; comparative monthly report, 223, 224; index of safe renters, 214; rentals, general ledger account, 239.
Salary, 30, 257; book, 111; checks, 111; payment of, 37, 111; list, 111.
Sale — power of, 173; of real estate, agreement, 179.
Sample books, supplies, 266.
Satisfaction, of mortage by trustee, 117.
Savings fund department, 225–229; deposits, general ledger account, 237; item in expense account, 109.
Schedules, of securities, 141.
Scratcher — for coupons paid, 123; individual depositors', 48, 68, 70; individual trusts, 199, 200; savings department, 229.
Seal, 19.
Sealing machine, 251.
Secretary, 37–39, 249.
Securities — arrangement of company's, 97; care of trust, 153–162; delivered, record of, 159, 179, 189, 197; deposit of, 140, 212, 213; held for trust investments, 206; index of, 155–159, 162, 164, 165; index of, for sale, 99; maturing, index of, 159; miscellaneous, 157; purchase and sale of, 98, 99; received, record of, 153, 158, 179, 188, 197; record of individual trusts, 189–197; for sale ledger, 99; worthless, 157, 160.
Securities company, 3.
Security, required of trustees, etc., 2, 149, 151.
Separation of trust assets from company's, 4, 147, 148.
Settlement — for mortgage, 167, 170; paying teller's, 53, 55, 56; for real estate, memorandum of, 179; receiving teller's, 47, 48; trust disbursements, 188; trust receipts, 185.
Shelves, roller, 161.
Shortages, 53.
Signature index — depositors', 62; savings department, 225, 226.
Sinking fund provisions in corporation mortgage, 116.
Sorting tray — bookkeeper's, 67; for dividend checks, 126; for letters, 251.
Special deposits, general ledger account, 237.
Specimen signature index, 62, 225, 226.
Stamps, postage, general ledger account, 236.
"Star entries," deposit and charge slips for, 73.
State regulation of trust companies, 11–13, 78, 93, 205, 243.
Statements, 234, 254; of condition, 22, 94, 242, 243; of coupons paid, 124; to depositors, 46, 71; individual trust department, 200; of trusts opened and closed, 204.
Stationery, 263.
Stenographers, 249–250.
Stock — care of, 153, 159; certificates, 104, 129, 132; delivered "by transfer," 136; general ledger account, 236; index, 155–157; inventory sheet (supplies), 263, 264; jobbing, 139; ledger, 104, 124, 136–137; record (supplies), 265; listed in different cities, 138; part paid, 137; "placed to order," 136; quotations, 80; register, 129, 130; requisition (supplies), 265; sheet,

record of individual trusts, 190, 192; transfer, 104, 153; transfer book, 134–136; transfer sheet, 138.
Stock exchange — collaterals, 82; New York, requirements for listing stocks or bonds, 279; New York, rules for delivery, 290.
Stockholders, 21–23; examination by, 245, 246; index of, 104, 126; liability of, 23; meetings, 22; reports to, 22, 242; represented by directors, 24.
Stockkeeper, 263, 265.
Stockroom, 265.
Stop payment orders, 57; record of, 57.
Subject, filing by, 253.
Substitution — of collateral, 88, 91; power of, 133.
Superintendent of building, 259.
Supplies — purchase and care of, 262–266; record of, received, 265.
Suretyship, 5, 11, 231, 256.
Surplus, 19; general ledger account, 239.
Surrender, of safe, 214, 215, 224.
Surrogate's court, 149.
Syndicate — accounts, 139; commissions, 146; correspondence, 253; manager, 8, 138–140; participation in, 94.

Tag, for valuables deposited, 222.
Taxes — collateral inheritance, 149; general ledger account, 237, 240; payable, general ledger account, 237, 238, 240; on real estate, 174; receipts, 168, 169.
Telephone, expense account, 108.
Teller — paying, 51–57, 213, 218; receiving, 44–51, 213, 218; savings department paying, 229; trust department paying, 185–188; trust department receiving, 164, 170, 184–185.
Temporary — certificates, 140; investment ledger, 96.
Tenants, index of, 179.
Ten-point margin, 81.
Testamentary — letters, 149; trustee, 9, 150–151.
Time loans — form of note, 82, 83; general ledger account, 235; ledger, 86, 87; maturity notice, 86; rate of interest on, 92.
Title insurance, 5, 11, 167, 230–232; registration, 176.
Tornado insurance, 181.
Torrens land transfer system, 176, 231.
Transfer — binder corporate trusts, 122; binder individual trusts, 197; book for bonds, 138; book for stock, 104, 134–136; books closed, 105; files for correspondence, 255; sheet, 138; of title to real estate, 176; of trust securities, 153.
Transfer agent, 7, 40, 129–138; commissions, 145; distinction between registrar and, 127, 128; dividend list prepared by, 124; liability, 131.
Travellers — letters of credit, 99; checks, 101.
Treasurer, 36–37, 44.
Trial balances — individual depositors', 67; general ledger, 234, 241; individual trusts, 200; savings department, 229.
Trust — cash book, 189; funds, deposited, 185; funds, disbursement of, 185–188; funds, receipt of, 184, 185; funds, uninvested, 148, 185, 188, 200, 201, 207; general cash book, 203; general journal, 203; general ledger, 188, 199, 201–204; ledger individual, 198–200; letters filed, 254; officer, 39–42, 153, 206; papers filed, 198.
Trust companies — advantages of, 4, 6; approved by courts, 2; compared with banks, 1, 11, 28, 43; deposits in, 3; deposits of, with banks, 54; development, 2, 3, 5; distribution by states, 2; failures, 4; first organized, 2; functions, 1–13; liabilities, 2, 154; method of organizing, 14–19; objections to, 4, 5; powers, 2, 3; regulation of, as to discounting paper, 78; as to investments, 93; by federal government, 13; by separate states, 12; in District of Columbia, 13, 232, 269; in Massachusetts, 12, 16, 39; responsibility of, as corporate trustee, 6; reserves, 75–76.
Trust department — corporate, 113–146; individual, 147–208; item in expense account 109; paying teller, 185–188; receiving teller, 164, 170, 184–185.
Trustee — accounting by, 9; commissions, 145, 207–208; under deed, 9, 151; under corporation mortgages and trust deeds, 7, 39, 113–122; investments, 204–206; under will, 9, 150–151.
"Trustee company," 5.
Trusts — car, 116; coal, 116; for charities, 151; collateral, 116; corporate, 6–8, 113–146; index of, 197, 254, individual, 8–11, 147–208; opened and closed, monthly statement of, 204; in perpetuity, 151; record of corporate, 117, 122, 128, 135, 144–145; record of individual, 153, 188–198.
Typewriting, 249.

Underwriting syndicate — manager of, 8, 138–140, 145; participation in, 94.
Undivided profits, general ledger account, 239, 240.
Uninvested trust funds, 148, 185, 188, 199–201, 207.

Vacations, 257.
Valuables — delivery order for, 222; deposit of, 212, 219–224; receipt for, 222.
Vaults — safe deposit, 209; trust, 153, 159.
Vertical filing system, 251–255.

Vice-President, 35.
Visitors to safe deposit department, record of, 222.
Voucher, 234; for expenses, 107; index, 110; record, 107; for trust disbursements, 186-187; and voucher check, 75.
Watchmen, 258.
Wills, 148, 211; book, 198; register of, 149, 150.
Withdrawals — savings department, 226, 227; slip, 227; notice, 226, 227.

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